

# PRACTICE EXAM 10: BUSINESS & LAW EXAM SIMULATION (50 QUESTIONS)

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**Time Allowed:** 120 Minutes (2 Hours)

**Total Questions:** 50

**Passing Score:** 70% (35 Correct)

## DOMAIN 1: LICENSING REQUIREMENTS (Questions 1–8)

1. A contractor wins a public school construction project valued at \$800,000. The contractor's Alabama license has a monetary limitation of \$1,000,000 and is current. However, the contractor's workers' compensation insurance policy lapsed two weeks ago and has not been renewed. Under Alabama law, can the contractor legally begin work on this project?

A. Yes, because the contractor's license is current and the insurance lapse is a private matter between the contractor and the insurer

B. No, the contractor cannot legally begin work — maintaining required insurance coverage, including workers' compensation for employers meeting the threshold, is a condition of lawful operation, and performing work without required coverage constitutes a violation that may result in disciplinary action and statutory liability for employee injuries

C. Yes, because workers' compensation applies only to residential construction and not to public school projects

D. Yes, as long as the contractor reinstates the insurance within 90 days of the project start date

2. Under Alabama law, a contractor who is awarded a public project must execute the contract within a specified timeframe after notification of award. If the contractor fails to execute the contract within the required period, what consequence does the contractor face?

A. The contractor receives an automatic 60day extension to execute the contract without any penalty

B. The contractor may execute the contract at any time within two years of the award notification date

C. The failure to execute has no consequence and the award remains valid indefinitely until the contractor signs

D. The contractor's bid bond or bid security may be forfeited, and the public entity may award the contract to the next lowest responsive, responsible bidder — the bid bond exists specifically to protect the owner against this scenario

3. A contractor holds an Alabama general contractor's license and decides to form a second company as a subsidiary. The contractor plans to use the parent company's license for the subsidiary's construction operations. Under Alabama licensing law, is this arrangement permissible?

A. No, each legal entity must obtain its own separate contractor's license — a parent company's license does not extend to a subsidiary because the subsidiary is a distinct legal entity with its own financial obligations, qualifying party requirements, and regulatory responsibilities

B. Yes, parent and subsidiary companies always share a single license under Alabama licensing law

C. Yes, as long as the subsidiary operates only in the same county as the parent company's principal office

D. Yes, but only if the subsidiary performs work valued at less than \$50,000 per project without exception

4. Under Alabama licensing regulations, the Licensing Board periodically reviews the adequacy of the licensing threshold (\$50,000) to determine whether it should be adjusted. What factors might the Board consider when evaluating whether to change the threshold?

A. Only the current price of gasoline is considered when evaluating changes to the licensing threshold

B. Only the number of licensed contractors in the state determines whether the threshold should change

C. The Board may consider inflation, changes in construction costs, the threshold's effectiveness in protecting the public, and comparison with licensing thresholds in other states — adjusting the threshold ensures it remains meaningful as construction costs change over time

D. The licensing threshold is set permanently by the Alabama Constitution and can never be changed

5. A contractor applies for an Alabama license and the Board requires the applicant to demonstrate "good character." Under Alabama licensing law, how does the Board evaluate an applicant's character?

A. Character is evaluated solely by the applicant's credit score with no other factors considered

B. The Board evaluates character through references, criminal background checks, prior disciplinary history in Alabama or other states, and any evidence of dishonesty, fraud, or misconduct in business dealings — good character is a prerequisite for licensure because contractors hold positions of trust

C. Character evaluation is based exclusively on the applicant's educational background and degrees

D. The Board does not evaluate character and relies solely on the financial statement for license decisions

6. Under Alabama law, a general contractor is responsible for ensuring that all work performed under the contractor's license complies with applicable building codes and standards. If a building inspector discovers code violations in work performed by the contractor's subcontractor, who is primarily responsible for correcting the violations?

A. Only the subcontractor is responsible because the subcontractor performed the noncompliant work

B. Only the building inspector is responsible for correcting code violations discovered during inspections

C. The property owner is solely responsible for all code violations regardless of who performed the work

D. The general contractor is primarily responsible for ensuring all work under the GC's contract complies with codes — while the GC may backcharge the subcontractor for the cost of corrections, the GC bears the obligation to the owner and the code authority to deliver compliant work

7. A licensed Alabama contractor retires and wants to cancel the contractor's license. Under Alabama licensing regulations, what is the proper procedure for voluntarily surrendering a license?

A. The contractor must notify the Board in writing of the intent to surrender the license and comply with any Board requirements for voluntary cancellation, including confirming that all active projects are complete or properly transferred and that no outstanding complaints or disciplinary actions are pending

B. The contractor simply stops paying the renewal fee and the license cancels itself automatically

C. The contractor must file a lawsuit against the Board to force cancellation of the license

D. Licenses cannot be voluntarily surrendered and remain active permanently once issued by the Board

8. Under Alabama law, a contractor who performs work on a federal military installation located within Alabama must comply with both Alabama state licensing requirements and federal contracting regulations. Under what additional requirement must the contractor operate when working on a federal installation?

A. Federal installations are governed exclusively by Alabama state law with no additional federal requirements

B. Only the military base commander's verbal approval is needed with no written permits or licenses required

C. The contractor must comply with both Alabama licensing requirements and applicable federal acquisition regulations (FAR), which may include additional bonding, insurance, security clearance, prevailing wage (DavisBacon), and safety requirements specific to federal construction projects

D. Federal installations are exempt from all state and federal licensing requirements without exception

## **DOMAIN 2: ESTIMATING AND BIDDING (Questions 9–13)**

9. A contractor is preparing a bid for a "designbuild" commercial project where the contractor provides both design and construction services under a single contract. Unlike the traditional designbidbuild method, the designbuild estimate must account for design costs. Under standard

estimating practice, what additional cost categories must the designbuild contractor include in the bid?

- A. Designbuild bids include only construction costs because the owner always pays the designer separately
- B. The designbuild contractor must include architectural and engineering design fees, designphase project management costs, design contingency, permitting costs, and construction costs — the singlesource responsibility means the contractor prices the complete project from concept through construction completion
- C. Designbuild bids are always lower than designbidbuild bids because eliminating the architect saves money
- D. Designbuild contracts do not require any cost estimate because the price is set by the architect alone

10. A contractor's estimator is calculating the cost of temporary facilities (general conditions) for a 16month commercial project. The temporary facilities include a job trailer rental, temporary power, temporary water, temporary fencing, portable toilets, and a dumpster. The monthly cost of these items totals \$8,500. What is the total temporary facilities budget for the project duration?

- A. \$8,500 because temporary facilities are budgeted for only one month regardless of the project duration
- B. \$42,500 because temporary facilities are budgeted for only five months on all commercial projects
- C. \$102,000 because temporary facilities costs are timedependent and the total is calculated by multiplying monthly costs by project duration
- D. \$136,000 calculated as  $\$8,500 \times 16$  months — temporary facilities are timedependent costs that continue for the entire project duration, and the estimator must account for the full 16month period to avoid underestimating this significant general conditions line item

11. A contractor receives a "request for proposals" (RFP) for a negotiated commercial project. Unlike an "invitation for bids" (IFB) used in competitive bidding, the RFP allows the owner to evaluate factors beyond price. Under standard construction procurement practice, what factors besides price might the owner evaluate in an RFP response?

- A. Only the contractor's bid price is evaluated in both RFP and IFB procurement methods without distinction
- B. The owner may evaluate the contractor's qualifications, relevant experience, proposed project team, management approach, safety record, schedule, design concepts (in designbuild), references, and the overall value proposition — the RFP process allows selection based on "best value" rather than lowest price alone
- C. The RFP evaluation considers only the contractor's office location and proximity to the project site
- D. The owner evaluates only the contractor's marketing materials and company logo design quality

12. A contractor is preparing a bid and must account for the cost of a performance bond and a payment bond. The bonding company quotes a combined rate of 1.5% of the contract price for both bonds. If the contractor's estimated contract price before the bond cost is \$2,000,000, what is the total bid including the bond premium?

- A. \$2,000,000 because bond costs are always paid separately by the owner and excluded from the bid
- B. \$2,015,000 calculated by applying a 0.75% rate to only half of the contract price for each bond
- C. \$2,030,000 calculated as  $\$2,000,000 + (\$2,000,000 \times 0.015 = \$30,000)$  — the 1.5% bond premium on the estimated contract price adds \$30,000 to the bid, though the actual bond cost may vary slightly because the premium is calculated on the final contract price
- D. \$2,300,000 calculated by applying a 15% bond rate to the estimated contract price for both bonds

13. A contractor is evaluating a "timeandmaterials" (T&M) contract for a commercial renovation project where the scope cannot be fully defined before construction begins. Under a T&M contract, how is the contractor compensated?

- A. The contractor is paid a fixed lump sum regardless of the actual time or materials used on the project
- B. The contractor is paid for actual labor hours at agreed hourly rates (which include wages, burden, overhead, and profit) plus the actual cost of materials with an agreed markup — the

owner pays for the actual resources consumed, and the contract may include a "nottoexceed" ceiling to limit the owner's maximum exposure

C. The contractor is paid only for materials with no compensation for labor hours under T&M contracts

D. T&M contracts are prohibited on all commercial construction projects in Alabama by state regulation

### **DOMAIN 3: LIEN LAWS (Questions 14–15)**

14. Under Alabama's mechanics' lien law, the amount of a contractor's lien is limited to a specific measure. What is the maximum amount for which a general contractor may file a mechanics' lien?

A. The lien amount is unlimited and the contractor may claim any amount regardless of the contract value

B. The lien amount is limited to exactly \$50,000 regardless of the work performed or the contract value

C. The lien amount is limited to the cost of materials only and may not include any labor costs

D. The general contractor's lien is generally limited to the amount remaining unpaid under the contract with the property owner — the contractor cannot lien for more than the owner contractually owes for the work performed

15. A property owner in Alabama enters into a contract with a general contractor for a \$600,000 commercial building. The owner makes progress payments totaling \$550,000. The general contractor abandons the project with \$100,000 of work remaining. A subcontractor who was not paid \$40,000 by the GC files a mechanics' lien against the property. Under Alabama law, what is the maximum lien exposure the owner faces from this subcontractor?

A. The owner's lien exposure to the subcontractor is generally limited to the amount the owner still owes under the prime contract (\$50,000 remaining) — however, if the subcontractor properly preserved lien rights through timely preliminary notice, the analysis becomes more complex and the owner may face exposure up to the amount that was due or to become due at the time of the notice

B. The owner faces no lien exposure because the owner has already paid \$550,000 to the general contractor

- C. The owner faces exactly \$600,000 in lien exposure regardless of how much has already been paid
- D. The owner faces \$40,000 in exposure because the lien amount always equals the subcontractor's unpaid claim

#### **DOMAIN 4: FINANCIAL MANAGEMENT (Questions 16–20)**

16. A contractor's financial advisor explains the concept of "leverage" in construction company financing. The company currently has \$300,000 in equity and \$600,000 in debt, giving it a debt-to-equity ratio of 2.0. The advisor recommends reducing the ratio to 1.5 or below. Under financial management principles, why is high leverage risky for a construction company?

- A. High leverage reduces the company's insurance premiums and improves its safety record automatically
- B. High leverage improves the company's bonding capacity because sureties prefer highly leveraged firms
- C. High leverage means the company relies heavily on borrowed money — during downturns, revenue drops but debt payments remain fixed, creating cash flow pressure that can lead to insolvency; sureties and banks view high leverage as increased risk, potentially reducing bonding capacity and credit availability
- D. Leverage has no relevance to construction company financial management and should be disregarded

17. A contractor completes a project and the final cost analysis shows that the "overhead absorption rate" was only 75% — meaning the project's markup recovered only 75% of the allocated home office overhead. If the allocated overhead was \$60,000, how much overhead was unabsorbed, and what is the financial impact?

- A. \$60,000 was unabsorbed because the overhead absorption rate represents the total overhead amount
- B. \$45,000 was absorbed and \$0 was unabsorbed because the 75% rate indicates excellent performance
- C. The overhead absorption rate has no financial impact on the company's profitability or bottom line

D. \$15,000 was unabsorbed ( $\$60,000 \times 25\% = \$15,000$ ) — this \$15,000 directly reduces the company's net profit because the project's markup did not generate enough revenue to cover its proportional share of corporate overhead costs

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18. A contractor's accountant prepares a "breakeven analysis" for a proposed project. The project has fixed costs of \$150,000 (insurance, bonds, superintendent, temporary facilities) and variable costs estimated at 82% of revenue. What revenue level must the project generate to break even?

A. The breakeven revenue is approximately \$833,333 ( $\$150,000 \div 0.18$ ) — at this revenue level, the 18% contribution margin (100% minus 82% variable costs) exactly covers the \$150,000 in fixed costs, producing zero profit; revenue above this level generates profit while revenue below generates a loss

B. The breakeven revenue is \$150,000 because the project breaks even when revenue equals fixed costs

C. Breakeven analysis cannot be applied to individual construction projects under any accounting method

D. The breakeven revenue is \$750,000 calculated by multiplying fixed costs by 5 as a standard rule

19. A contractor reviews the company's "days sales outstanding" (DSO) metric and discovers it has increased from 45 days to 72 days over the past year. What does this increase in DSO indicate about the company's financial performance?

A. A DSO increase from 45 to 72 days indicates the company is collecting its accounts receivable faster

B. DSO has no financial significance for construction companies and should not be monitored by management

C. The increase indicates the company is taking significantly longer to collect payments from owners — the average invoice now takes 72 days to collect instead of 45, which strains cash flow, increases borrowing costs, and may indicate client payment problems or invoicing inefficiencies that need attention

D. A higher DSO always indicates improved profitability for construction companies regardless of other factors

20. A contractor's job cost report for a concrete subcontract shows: original subcontract \$280,000, approved change orders \$45,000, revised subcontract \$325,000, costs billed to date \$260,000, retainage withheld \$26,000, estimated cost to complete \$65,000. What is the projected final cost of this subcontract, and is it tracking to budget?

A. The projected final cost is \$260,000 because only costs billed to date are relevant to the projection

B. The projected final cost is \$325,000 (\$260,000 billed + \$65,000 to complete), which equals the revised subcontract value of \$325,000 — the subcontract is tracking exactly to the revised budget with no projected overrun or underrun

C. The projected final cost is \$280,000 because only the original subcontract amount matters for projections

D. The projected cost cannot be determined without knowing the retainage release schedule for the project

#### **DOMAIN 5: PAYROLL, TAXES, AND INSURANCE (Questions 21–26)**

21. Under federal tax law, a construction contractor must determine whether to use the "cash method" or "accrual method" of accounting for tax purposes. For small contractors whose average annual gross receipts do not exceed the IRS threshold (currently approximately \$29 million), what advantage does the cash method provide?

A. The cash method requires more complex recordkeeping than the accrual method for all contractors

B. The cash method provides no tax advantage and is identical to the accrual method in all respects

C. The cash method is prohibited for all construction contractors regardless of revenue size or contract type

D. The cash method allows the contractor to defer tax on income until cash is actually received, rather than recognizing income when billed (as required under the accrual method) — this provides a cash flow advantage because taxes are not owed on receivables that have been billed but not yet collected

22. A contractor is reviewing the company's "mod worksheet" — the document that shows how the workers' compensation experience modification rate (EMR) is calculated. The worksheet shows that the company had three claims in the rating period: a \$5,000 medicalonly claim, a

\$25,000 losttime claim, and a \$150,000 losttime claim. Under the EMR calculation methodology, how do claim size and type affect the EMR?

- A. All claims affect the EMR equally regardless of size, type, or severity of the injury sustained
- B. The EMR calculation weights claim frequency (number of claims) more heavily than claim severity (size of individual claims) — multiple small claims increase the EMR more than a single large claim of the same total cost because frequency indicates a pattern of unsafe conditions, while severity may reflect a single unfortunate event
- C. Only claims exceeding \$100,000 affect the EMR calculation with smaller claims excluded entirely
- D. Medicalonly claims increase the EMR while losttime claims decrease it under the standard methodology

23. Under Alabama law, a contractor who employs workers classified as "statutory employees" must include these workers on the contractor's workers' compensation policy. What is a "statutory employee" in the construction context?

- A. A statutory employee is a worker employed directly by the property owner who performs construction work
- B. A statutory employee is only a corporate officer of the construction company who is exempt from coverage
- C. Statutory employees do not exist under Alabama workers' compensation law and the term has no meaning
- D. A subcontractor's employee may be deemed a "statutory employee" of the general contractor if the subcontractor fails to carry workers' compensation insurance — Alabama law may hold the GC responsible for providing coverage to the uninsured subcontractor's workers as if they were the GC's own employees

24. A contractor's insurance broker recommends a "contractor's pollution liability" (CPL) policy for the construction company. What environmental risks does a CPL policy cover that the standard CGL policy typically excludes?

- A. CPL covers only noise pollution from construction equipment and has no other environmental coverage
- B. CPL covers only air pollution from vehicle exhaust and does not address soil or water contamination
- C. CPL covers pollution-related liabilities arising from the contractor's construction operations — including cleanup costs, thirdparty bodily injury, and property damage from accidental releases of pollutants (fuel spills, sediment discharge, dust emissions) that the standard CGL's pollution exclusion would deny
- D. CPL and CGL provide identical pollution coverage with no distinction between the two policy types

25. Under federal tax law, a contractor must properly account for "retainage receivable" on the company's tax return. Under the accrual method of accounting, when is retainage recognized as income for tax purposes?

- A. Retainage is never recognized as income and is permanently excluded from the contractor's taxable revenue
- B. Retainage is recognized as income in the year the contractor receives the full retainage payment only
- C. Retainage is recognized as income only after the warranty period expires on each individual project
- D. Under the accrual method, retainage receivable is generally recognized as income in the year it is earned (when the work is performed and the right to payment is established), even though the cash is not received until substantial completion — this means the contractor pays tax on retainage before actually collecting it

26. A contractor's safety manager implements an "incentive safety program" that rewards workers with cash bonuses for achieving zero recordable injuries during each quarter. Under OSHA's position on safety incentive programs, what concern does this type of program raise?

- A. OSHA encourages cashbased safety incentive programs tied to injury rates and considers them best practice
- B. OSHA has no position on safety incentive programs and they are completely unregulated by any agency

C. Safety incentive programs are required by OSHA on all construction projects exceeding \$1,000,000

D. OSHA is concerned that safety incentive programs tied to injury rates may discourage workers from reporting injuries — workers may hide injuries to avoid losing the bonus, resulting in underreporting of recordable incidents; OSHA recommends incentive programs that reward positive safety behaviors (attending training, reporting hazards) rather than injury outcomes

## **DOMAIN 6: PERSONNEL AND LABOR LAW (Questions 27–31)**

27. Under the Fair Credit Reporting Act (FCRA), a contractor who conducts background checks on job applicants must follow specific procedures. Before obtaining a consumer report (background check) on an applicant, what must the employer do?

A. The employer may conduct background checks on all applicants without any notification or consent

B. The employer must inform all other applicants of the specific background check results for transparency

C. The employer must provide the applicant with written disclosure that a background check may be conducted and obtain the applicant's written consent before requesting the report — if the employer takes adverse action based on the report, the employer must provide a preadverse action notice with a copy of the report

D. Background checks are prohibited for all construction industry job applicants under federal law

28. A contractor employs a worker who is injured on the job and files a workers' compensation claim. The worker recovers and returns to work. Three months later, the contractor terminates the worker, claiming poor performance. The worker alleges the termination is retaliation for filing the workers' compensation claim. Under Alabama law, what protection does the worker have?

A. Workers have no protection against retaliation for filing workers' compensation claims in Alabama

B. Alabama law prohibits employers from terminating employees in retaliation for filing workers' compensation claims — if the worker can demonstrate that the termination was

motivated by the claim rather than legitimate performance issues, the employer may be liable for retaliatory discharge

C. Retaliation protections apply only to workers who were injured more than once during employment

D. Only federal employees are protected from workers' compensation retaliation in Alabama

29. Under the Electronic Communications Privacy Act (ECPA) and Alabama law, a contractor who provides companyowned cell phones and computers to employees wants to monitor the employees' use of these devices. Under what conditions may the employer monitor employee communications on companyprovided devices?

A. Employers may never monitor employee communications on any device under any circumstances

B. Only the FBI may monitor employee communications, and employers have no monitoring rights

C. Employers may monitor communications only during nonworking hours on personal employee devices

D. Employers generally may monitor employee use of companyowned devices when the employer has established a clear written policy notifying employees that the devices are company property subject to monitoring, that employees have no expectation of privacy when using company devices, and that the employer reserves the right to access and review all communications and data

30. A contractor's project has a workforce that includes workers who speak only Spanish and cannot read or understand English. Under OSHA's communication requirements, what obligation does the employer have regarding safety training and hazard communication for these workers?

A. The employer must provide safety training and hazard communication in a language and vocabulary that the workers can understand — for Spanishspeaking workers, this means providing training, safety signage, SDS information, and emergency procedures in Spanish or through bilingual trainers

B. Employers have no obligation to communicate safety information in any language other than English

C. Only the project superintendent must speak Spanish while all other safety communication may be in English

D. OSHA requirements apply only to Englishspeaking workers and exempt all nonEnglish speakers

31. Under Alabama employment law, a contractor who terminates an employee must provide certain documentation. If the terminated employee files for unemployment benefits, what information must the employer provide to the Alabama Department of Labor?

A. The employer has no obligation to provide any information when a former employee files for unemployment

B. The employer must provide only the employee's Social Security number with no other details required

C. The employer must respond to the unemployment claim notice by providing information about the circumstances of the separation — including whether the termination was voluntary or involuntary, the reason for termination, and any documentation supporting the employer's position — this information helps the Department determine whether the employee is eligible for benefits

D. The employer must pay the full unemployment benefit amount directly to the former employee immediately

#### **DOMAIN 7: PROJECT MANAGEMENT (Questions 32–34)**

32. A contractor is managing a commercial project and the owner requests "commissioning" of the building's mechanical, electrical, and plumbing systems before occupancy. Under standard construction practice, what is the purpose of building commissioning?

A. Commissioning verifies that all building systems are installed correctly and operate according to the design intent and the owner's project requirements — it includes functional performance testing of HVAC, electrical, plumbing, fire protection, and building automation systems to ensure they perform as designed before the owner assumes responsibility for the building

B. Commissioning is a marketing ceremony where the owner cuts a ribbon to officially open the building

C. Commissioning applies only to naval vessels and has no application to commercial building construction

D. Commissioning is identical to the building inspector's final inspection and adds no additional verification

33. A contractor is implementing "pull planning" as a collaborative scheduling technique for a complex commercial project. How does pull planning differ from traditional "push" scheduling?

A. Pull planning and push planning are identical techniques with different names used interchangeably

B. Pull planning starts from the project start date and pushes activities forward to determine the completion date

C. Pull planning applies only to residential construction and cannot be used on commercial building projects

D. Pull planning works backward from a target milestone or completion date, with trade foremen collaboratively identifying the activities and handoffs needed to achieve that date — it "pulls" the schedule from the desired outcome rather than "pushing" from the start, resulting in a more realistic and committed plan

34. A contractor's project manager is tracking "request for information" (RFI) turnaround times on a commercial project. The contract allows the architect 10 business days to respond to RFIs. The average turnaround time has been 22 business days over the past three months. Under standard construction practice, what impact does the delayed RFI response have on the project?

A. RFI turnaround times have no impact on the construction schedule regardless of the delay duration

B. Delayed RFI responses may cause work stoppages, outofsequence construction, rework, and schedule delays — the contractor should document each delayed RFI and its impact on the affected work activities, notify the owner and architect in writing of the accumulating delays, and preserve the right to claim time extensions and additional costs caused by the delayed responses

C. The contractor must stop all work on the project until every outstanding RFI is answered by the architect

D. The architect's 10day response period is a suggestion with no contractual significance or consequence

## DOMAIN 8: CONTRACT MANAGEMENT (Questions 35–40)

35. Under Alabama law, a construction contract may include a "flowdown" clause in the subcontract that binds the subcontractor to the same terms, conditions, and obligations that the general contractor has with the owner. Under standard construction practice, what is the purpose of a flowdown clause?

- A. Flowdown clauses create consistency in the contractual chain by ensuring subcontractors are bound by the same requirements as the GC — including schedule, quality standards, insurance, safety, indemnification, dispute resolution, and payment terms — so the GC is not exposed to liability gaps between the prime contract and the subcontract
- B. Flowdown clauses apply only to the color of paint used on the project and no other contract terms
- C. Flowdown clauses are prohibited in all Alabama construction subcontracts by state statute
- D. Flowdown clauses require the subcontractor to hire the same employees as the general contractor

36. A contractor signs a construction contract with a "nolien" provision requiring the contractor to waive all mechanics' lien rights on the project. After completing \$200,000 of work, the owner stops making payments. The contractor wants to file a mechanics' lien. Under Alabama law, what is the contractor's position?

- A. The contractor may file a lien regardless of the nolien provision because such waivers are unenforceable
- B. The nolien provision automatically entitles the contractor to double the contract price as compensation
- C. The contractor's position depends on whether the nolien provision was supported by adequate consideration
- D. The enforceability of preconstruction nolien waivers is uncertain under Alabama law — courts may refuse to enforce the waiver if it was unconscionable, unsupported by adequate consideration, or contrary to public policy, but the contractor faces the risk that the court may enforce the waiver, leaving the contractor without lien protection

37. A contractor is reviewing a proposed contract that includes a "most favored nation" (MFN) pricing clause. The clause states that the contractor must offer the owner the same pricing terms

offered to any other client for similar work. Under standard construction practice, what is the practical effect of this clause?

- A. The MFN clause has no practical effect because all commercial construction projects have identical pricing
- B. The MFN clause requires the contractor to charge every client exactly the same price regardless of scope
- C. The MFN clause obligates the contractor to offer this owner pricing that is at least as favorable as the pricing offered to any other client for comparable work — if the contractor offers a lower price to another client, the MFN owner is entitled to the same reduced pricing
- D. The MFN clause applies only to the cost of materials and does not affect labor pricing in any way

38. Under Alabama contract law, a contractor who discovers a "latent ambiguity" in the contract documents during construction faces a specific legal situation. What is a latent ambiguity, and how is it typically resolved?

- A. A latent ambiguity is a contract provision that appears clear on its face but becomes ambiguous when applied to the actual field conditions — the ambiguity is not apparent until the contractor encounters the specific situation during construction; it is typically resolved through RFI, architect interpretation, or negotiation, and the contractor should not be penalized for a reasonable interpretation
- B. A latent ambiguity is a misspelled word in the contract that has no legal significance whatsoever
- C. Latent ambiguities automatically void the entire construction contract without possibility of resolution
- D. Latent ambiguities apply only to oral contracts and never arise in written construction agreements

39. A contractor completes a \$3,000,000 commercial project and the owner occupies the building. Eighteen months after substantial completion, a roof leak causes significant interior damage. The one-year warranty has expired. The owner claims the leak results from defective installation by the roofing subcontractor. Under Alabama law, what legal theories might the owner pursue against the contractor?

- A. The owner has no legal recourse because the oneyear warranty has expired and all claims are barred
- B. The owner may pursue only a workers' compensation claim against the roofing subcontractor's insurer
- C. The owner may only negotiate a reduced warranty repair at the contractor's discretion with no legal remedy
- D. The owner may pursue claims under the sixyear statute of limitations for breach of written contract, alleging that the defective installation constituted a breach of the contract's workmanship requirements — the oneyear warranty expired, but the broader statute of limitations provides additional time for latent defect claims that were not reasonably discoverable during the warranty period

40. A contractor is reviewing a contract that includes a "limitation of remedies" clause stating that the owner's sole remedy for defective work is repair or replacement by the contractor, and the owner may not pursue monetary damages. Under Alabama law, is this type of limitation enforceable?

- A. Limitation of remedies clauses are automatically void in all Alabama construction contracts
- B. Limitation of remedies clauses may be enforceable if they were negotiated at arm's length, supported by adequate consideration, and not unconscionable — however, if the limited remedy "fails of its essential purpose" (for example, the contractor repeatedly fails to repair the defect), the court may allow the owner to pursue other remedies including monetary damages
- C. The limitation applies only to the first defect discovered and not to subsequent defects on the project
- D. Only federal courts may enforce limitation of remedies clauses and Alabama state courts cannot

#### **DOMAIN 9: BUSINESS ORGANIZATION (Questions 41–42)**

41. A contractor operates as a corporation and the company's board of directors makes all major business decisions. Under Alabama corporate law, what is the board's "fiduciary duty" to the corporation and its shareholders?

- A. The board of directors has no fiduciary duty and may make decisions solely for their personal benefit

B. The board has a fiduciary duty to act in the best interests of the corporation and its shareholders, including the duty of care (making informed decisions with reasonable diligence) and the duty of loyalty (putting the corporation's interests ahead of personal interests and avoiding conflicts of interest)

C. The board's only duty is to maximize shortterm profits regardless of legal or ethical considerations

D. Fiduciary duties apply only to nonprofit organizations and do not apply to forprofit corporations

42. A contractor is considering forming a "professional limited liability company" (PLLC) instead of a standard LLC. Under Alabama law, what type of business must form a PLLC rather than a standard LLC?

A. All construction companies must form as PLLCs rather than standard LLCs under Alabama law

B. PLLCs are required only for companies with annual revenues exceeding \$10,000,000 in Alabama

C. PLLCs are identical to standard LLCs with no difference in formation requirements or liability protection

D. PLLCs are required for businesses that provide licensed professional services (such as architecture, engineering, law, medicine) — construction contracting generally does not require a PLLC, but a designbuild firm that provides licensed architectural or engineering services may need to consider this structure

#### **DOMAIN 10: RISK MANAGEMENT (Questions 43–46)**

43. A contractor is evaluating the risk of a "delay claim" on a commercial project with a tight schedule. The project includes liquidated damages of \$2,000 per day for late completion. Under standard risk management practice, what steps should the contractor take during construction to protect against a delay claim?

A. The contractor should maintain detailed contemporaneous schedule documentation including daily logs, updated CPM schedules, correspondence documenting ownercaused delays, weather records, RFI logs with response times, and change order impacts — this documentation is essential for proving excusable delay and defending against liquidated damages claims

- B. The contractor should not document anything because records can be used against the contractor in disputes
- C. The contractor should rely solely on the architect's meeting minutes and maintain no independent records
- D. Delay claim protection requires only a handshake agreement with the owner and no written documentation

44. Under Alabama law, a contractor who performs blasting operations near existing structures must comply with specific safety and regulatory requirements. What primary risk management measure must the contractor implement before blasting begins?

- A. No preblast precautions are required because blasting is an inherently safe construction operation
- B. Only a verbal warning to adjacent property owners is required 5 minutes before each blast event
- C. A preblast survey of all structures within the blast influence zone must be conducted to document existing conditions (cracks, settlement, damage) before blasting begins — this survey provides baseline evidence that protects the contractor against false claims of blast-related damage from preexisting conditions
- D. The contractor must permanently relocate all residents within 5 miles of the blast site before operations

45. A contractor's risk management plan identifies "scope creep" as a significant risk on a renovation project. Under standard risk management practice, what is scope creep and how should the contractor manage it?

- A. Scope creep refers to physical expansion of the building footprint and is managed by the surveyor
- B. Scope creep refers only to changes in the project's paint colors and is managed by the interior designer
- C. Scope creep is not a recognized construction risk and requires no management attention from the contractor
- D. Scope creep is the gradual, undocumented expansion of the project scope through informal owner requests, architect clarifications, and field decisions that individually seem minor but collectively add significant cost and time — the contractor must track all scope changes

regardless of size, submit timely change order requests, and obtain written authorization before performing outofscope work

46. A contractor's safety manager is developing a "job hazard analysis" (JHA) for a critical construction activity — installing structural steel at height. Under OSHA's recommended practices, what must the JHA include?

A. The JHA must include only a list of the tools needed for the steel installation with no hazard identification

B. The JHA must identify each step of the steel installation process, the specific hazards associated with each step (falls, struckby, pinch points, crane hazards), and the control measures to be implemented for each identified hazard — the JHA is reviewed with the work crew before the activity begins to ensure all workers understand the hazards and controls

C. The JHA is completed only after the work is finished as a postactivity review document for record keeping

D. The JHA must include only the project schedule and has no safetyrelated content or purpose

**DOMAIN 11: SAFETY, RECORDKEEPING, AND ENVIRONMENTAL (Questions 47–50)**

47. Under OSHA's construction safety standards, a contractor must implement specific procedures for working in or near traffic on roadway construction projects. What is the primary standard that governs temporary traffic control in construction work zones?

A. The Manual on Uniform Traffic Control Devices (MUTCD) establishes the standards for temporary traffic control in work zones, including sign placement, flagging operations, channelizing devices, and temporary traffic signals — OSHA references the MUTCD as the applicable standard for work zone traffic control

B. OSHA has no standards or references for traffic control in construction work zones

C. Traffic control is managed exclusively by the state highway patrol with no contractor responsibilities

D. Only permanent traffic signals may be used in construction work zones with no temporary devices permitted

48. A contractor is performing renovation work in a commercial building that is partially occupied by tenants during construction. Under OSHA regulations and standard construction practice, what additional safety measures must the contractor implement to protect the building's occupants?

A. No additional measures are needed because occupants are responsible for their own safety during renovation

B. The contractor should invite occupants to observe the construction work for educational purposes only

C. The contractor must implement measures to protect occupants including dust barriers and containment, noise mitigation during occupied hours, secure separation between construction and occupied areas, fire protection maintenance, egress path preservation, communication with building management about hazardous activities, and air quality monitoring as appropriate

D. The contractor must evacuate all occupants from the building for the entire duration of the renovation

49. Under EPA regulations, a contractor who generates "conditionally exempt small quantity generator" (CESQG) amounts of hazardous waste on a construction site has specific management requirements. What defines a CESQG, and what are the basic requirements?

A. CESQGs are completely exempt from all hazardous waste regulations with no requirements of any kind

B. Only contractors generating more than 10,000 pounds of hazardous waste per month are classified as CESQGs

C. CESQG classification applies only to residential construction projects and not to commercial projects

D. A CESQG (now called "very small quantity generator" under current EPA rules) generates no more than 220 pounds (100 kg) of hazardous waste per month — these generators must identify their waste, never accumulate more than 2,200 pounds at any time, and ensure proper disposal at a permitted facility

50. A contractor is constructing a commercial building on a site where the grading plan requires moving more than 5,000 cubic yards of soil. Under Alabama's construction stormwater regulations, the contractor must implement erosion and sediment control best management practices (BMPs). What is the most common BMP used to prevent sedimentladen stormwater from leaving the construction site?

- A. The most common BMP is paving the entire site before beginning any grading operations
- B. A silt fence installed along the downslope perimeter of the disturbed area is the most commonly used BMP for preventing sedimentladen runoff from leaving the construction site — the fabric barrier filters suspended sediment from sheet flow runoff while allowing water to pass through, retaining soil on the site
- C. The most common BMP is spraying chemicals on the soil surface to permanently bind all particles together
- D. The most common BMP is pumping all stormwater directly into the sanitary sewer system without treatment

## Practice Exam 10: Answer Key and Explanations

### DOMAIN 1: LICENSING REQUIREMENTS (Questions 1–8)

1. B — Maintaining required insurance coverage is a condition of lawful operation in Alabama. A lapsed workers' compensation policy means the contractor is operating without required coverage, which constitutes a violation subject to disciplinary action. If an employee is injured during the uninsured period, the contractor faces direct personal liability for all medical costs and lost wages.
2. D — The bid bond exists specifically to protect the public entity when a contractor fails to execute the contract after being awarded the project. If the contractor refuses to sign, the bid bond is forfeited and the public entity may award to the next lowest responsive, responsible bidder. The forfeited amount compensates the owner for the cost difference.
3. A — Each legal entity must obtain its own separate contractor's license in Alabama. A subsidiary is a distinct legal entity with its own financial obligations, qualifying party requirements, and regulatory responsibilities. The parent company's license does not extend to cover the subsidiary's construction operations.
4. C — The Board may consider inflation, changes in construction costs, the threshold's effectiveness in protecting the public, and comparisons with other states' thresholds. As construction costs increase over time, a static threshold may capture fewer projects, reducing public protection. Periodic review ensures the threshold remains meaningful.
5. B — The Board evaluates character through multiple sources: personal references, criminal background checks, disciplinary history in Alabama and other states, and evidence of honesty and integrity in business dealings. Good character is essential because contractors hold positions of trust involving significant financial responsibility and public safety.
6. D — The general contractor is primarily responsible to the owner and code authority for all work performed under the GC's contract, including subcontractor work. While the GC may backcharge the subcontractor for correction costs, the GC cannot shift the primary compliance obligation to the subcontractor in the eyes of the code authority.

**7. A** — Proper voluntary surrender requires written notification to the Board confirming that all active projects are complete or properly transferred and that no outstanding complaints or disciplinary actions are pending. Simply failing to renew creates an uncontrolled lapse rather than a clean voluntary cancellation.

**8. C** — Work on federal installations requires compliance with both Alabama licensing requirements and federal acquisition regulations (FAR). Federal projects may impose additional requirements including specific bonding, insurance, security clearances, DavisBacon prevailing wages, and safety standards that exceed standard commercial project requirements.

## **DOMAIN 2: ESTIMATING AND BIDDING (Questions 9–13)**

**9. B** — Designbuild estimates must include both design and construction costs under a single contract: architectural and engineering fees, designphase management, design contingency, permitting, and all construction costs. The contractor assumes singlesource responsibility for delivering the complete project from concept through construction.

**10. D** — Temporary facilities at \$8,500 per month for 16 months equals \$136,000. These are timedependent costs that continue for the entire project duration. Underestimating the duration or omitting any months produces a significant budget shortfall in the general conditions category that directly reduces project profitability.

**11. B** — An RFP allows the owner to evaluate the complete value proposition: qualifications, experience, proposed team, management approach, safety record, schedule methodology, and price. This "best value" selection method differs from competitive bidding's "lowest price" approach and produces better outcomes for complex projects requiring strong management capability.

**12. C** — The bond premium at 1.5% of the \$2,000,000 contract price adds \$30,000 to the bid, for a total of \$2,030,000. The bond premium must be included in the bid because it is a real cost the contractor incurs. The actual premium may vary slightly because the surety calculates the final premium on the executed contract price.

**13. B** — Under a T&M contract, the contractor is paid for actual labor hours at agreed rates (including wages, burden, overhead, and profit) plus actual material costs with an agreed markup. The owner pays for actual resources consumed. A "nottoexceed" ceiling may be included to cap the owner's maximum exposure while preserving the flexibility needed for undefined scope.

## **DOMAIN 3: LIEN LAWS (Questions 14–15)**

**14. D** — The general contractor's mechanics' lien is generally limited to the amount remaining unpaid under the contract with the property owner. The contractor cannot lien for more than the owner contractually owes. If the owner has paid the full contract price, the GC's lien rights are exhausted regardless of amounts the GC may owe to subcontractors.

**15. A** — The owner's lien exposure to the subcontractor is generally limited to the amount still owed under the prime contract (\$50,000 remaining). However, if the subcontractor properly served preliminary notice, the analysis becomes more complex because Alabama law may protect the subcontractor's lien rights up to the amount that was due or to become due at the time the notice was served.

#### **DOMAIN 4: FINANCIAL MANAGEMENT (Questions 16–20)**

**16. C** — High leverage means the company relies heavily on borrowed money with fixed debt payments. During revenue downturns, those payments remain constant while income drops, creating severe cash flow pressure. Sureties and banks view high leverage as increased risk, which may reduce bonding capacity and credit availability at the worst possible time.

**17. D** — Unabsorbed overhead equals  $\$60,000 \times 25\% = \$15,000$ . This \$15,000 directly reduces the company's net profit because the project did not generate enough markup revenue to cover its proportional share of home office costs. Persistent underabsorption across multiple projects can threaten the company's financial viability.

**18. A** — Breakeven revenue equals fixed costs divided by the contribution margin percentage:  $\$150,000 \div (1.00 - 0.82) = \$150,000 \div 0.18 = \$833,333$ . At this revenue level, the 18% contribution margin exactly covers the \$150,000 in fixed costs. Every dollar of revenue above \$833,333 generates \$0.18 of profit.

**19. C** — DSO increasing from 45 to 72 days means the company now waits an average of 72 days to collect each invoice — 27 days longer than before. This extended collection period strains cash flow, increases borrowing costs on the line of credit, and may indicate owner payment problems or internal invoicing inefficiencies requiring attention.

**20. B** — The projected final cost is \$260,000 billed to date plus \$65,000 estimated to complete = \$325,000, which exactly matches the revised subcontract value of \$325,000. The subcontract is tracking to budget with no projected overrun. The \$26,000 retainage is a timing item that will be released upon completion.

#### **DOMAIN 5: PAYROLL, TAXES, AND INSURANCE (Questions 21–26)**

**21. D** — The cash method allows contractors to defer tax on income until cash is actually received. Under the accrual method, income is recognized when billed — meaning the contractor pays tax on

receivables before collecting them. The cash method's deferral provides a meaningful cash flow advantage, particularly for contractors with large receivable balances.

**22. B** — The EMR calculation weights claim frequency more heavily than severity. Multiple small claims increase the EMR more than a single large claim of the same total cost because frequency indicates a pattern of unsafe conditions that is more likely to continue. Severity may reflect a single unfortunate event rather than systemic safety problems.

**23. D** — If a subcontractor fails to carry workers' compensation insurance, Alabama law may deem the subcontractor's employees to be "statutory employees" of the general contractor. The GC becomes responsible for providing coverage as if these workers were the GC's own employees, creating unexpected premium costs and liability exposure.

**24. C** — The standard CGL policy contains a broad pollution exclusion that denies coverage for most pollution-related claims. A CPL policy fills this gap by covering cleanup costs, thirdparty bodily injury, and property damage from accidental pollutant releases during construction operations — such as fuel spills, sediment discharge, and dust emissions.

**25. D** — Under the accrual method, retainage is recognized as income when earned (when the work is performed and the right to payment is established), even though the cash is not received until substantial completion. This creates a tax liability on money the contractor has not yet collected — a significant cash flow consideration for accrualbasis contractors.

**26. D** — OSHA is concerned that incentive programs tied to injury rates may discourage workers from reporting injuries to preserve the bonus. This underreporting masks true safety performance and prevents the employer from identifying and correcting hazards. OSHA recommends incentivizing positive safety behaviors rather than injuryrate outcomes.

#### **DOMAIN 6: PERSONNEL AND LABOR LAW (Questions 27–31)**

**27. C** — The FCRA requires written disclosure to the applicant that a background check may be conducted and written consent before the report is requested. If adverse action is taken based on the report, the employer must provide a preadverse action notice with a copy of the report and a summary of rights, giving the applicant an opportunity to dispute inaccuracies.

**28. B** — Alabama law prohibits retaliatory termination for filing workers' compensation claims. If the worker demonstrates that the termination was motivated by the claim rather than legitimate performance issues, the employer faces liability for retaliatory discharge. Employers must document performance problems thoroughly and independently of the claim.

**29. D** — Employers may generally monitor employee use of companyowned devices when a clear written policy notifies employees that the devices are company property, that no expectation of privacy exists, and that the employer reserves the right to access all communications and data. Without this policy, monitoring may violate privacy laws.

**30. A** — OSHA requires safety training and hazard communication in a language and vocabulary that workers can understand. For Spanishspeaking workers, this means providing training, safety signage, SDS information, and emergency procedures in Spanish or through bilingual trainers. Effective communication is essential for worker safety regardless of language.

**31. C** — The employer must respond to the unemployment claim notice with information about the separation circumstances. This includes whether the termination was voluntary or involuntary, the reason, and supporting documentation. The Department uses this information to determine benefit eligibility — voluntary quit for personal reasons typically disqualifies the employee.

#### **DOMAIN 7: PROJECT MANAGEMENT (Questions 32–34)**

**32. A** — Commissioning verifies that all building systems are installed correctly and operate according to the design intent. It includes functional performance testing of HVAC, electrical, plumbing, fire protection, and building automation systems. Commissioning identifies deficiencies before the owner takes occupancy, ensuring the building performs as designed from day one.

**33. D** — Pull planning works backward from a target completion date, with trade foremen collaboratively identifying the activities, durations, and handoffs needed to achieve that date. Each participant commits to specific deliverables, creating buyin and accountability. This bottomup approach produces more realistic schedules than topdown "push" methods.

**34. B** — Delayed RFI responses averaging 22 days versus the contractual 10 days can cause work stoppages, outofsequence construction, and cascading schedule delays. The contractor must document each delayed RFI and its specific impact, notify the owner and architect in writing, and preserve the right to claim time extensions and additional costs.

#### **DOMAIN 8: CONTRACT MANAGEMENT (Questions 35–40)**

**35. A** — Flowdown clauses ensure subcontractors are bound by the same requirements as the GC under the prime contract. This creates consistency in the contractual chain and prevents liability gaps. Without flowdown provisions, the GC could be bound by prime contract obligations that the subcontract does not enforce downstream.

**36. D** — The enforceability of preconstruction noliem waivers is uncertain under Alabama law. Courts may refuse enforcement if the waiver was unconscionable, lacked adequate consideration, or violated public policy. However, the contractor risks the court enforcing the waiver, which would eliminate lien protection. The contractor should seek legal counsel before signing.

**37. C** — The MFN clause obligates the contractor to offer pricing at least as favorable as that offered to any other client for comparable work. If the contractor offers a lower price elsewhere, the MFN owner is entitled to the same reduction. This protects the owner from paying a premium while the contractor offers better terms to competitors.

**38. A** — A latent ambiguity appears clear on its face but becomes ambiguous when applied to actual field conditions. The ambiguity only becomes apparent during construction. Resolution typically involves RFI submission, architect interpretation, or negotiation. The contractor should not be penalized for a reasonable interpretation of an ambiguous provision.

**39. D** — Although the oneyear warranty has expired, the owner may pursue a breach of written contract claim under Alabama's sixyear statute of limitations. Latent defects that were not reasonably discoverable during the warranty period may still be actionable. The statute of limitations provides a longer window for claims that could not have been brought during the warranty.

**40. B** — Limitation of remedies clauses may be enforceable if negotiated at arm's length and not unconscionable. However, if the limited remedy "fails of its essential purpose" — for example, the contractor repeatedly fails to repair the defect — the court may set aside the limitation and allow the owner to pursue monetary damages and other remedies.

## **DOMAIN 9: BUSINESS ORGANIZATION (Questions 41–42)**

**41. B** — The board of directors has a fiduciary duty to act in the corporation's best interests, including the duty of care (making informed, diligent decisions) and the duty of loyalty (avoiding conflicts of interest and putting the corporation's interests first). Directors who breach these duties may be personally liable for resulting damages to the corporation.

**42. D** — PLLCs are required for businesses providing licensed professional services such as architecture, engineering, law, and medicine. Standard construction contracting does not require a PLLC. However, a designbuild firm providing licensed architectural or engineering services may need to consider the PLLC structure for the professional services component.

## **DOMAIN 10: RISK MANAGEMENT (Questions 43–46)**

**43. A** — Contemporaneous documentation is the contractor's best defense against delay claims. Daily logs, updated schedules, correspondence documenting ownercaused delays, weather records, RFI logs with response times, and change order impact analyses provide the evidence needed to prove excusable delay and defend against liquidated damages.

**44. C** — A preblast survey documents the existing condition of all structures within the blast influence zone before blasting begins. Photographs, video, and written descriptions of existing cracks and damage establish a baseline. Without this documentation, the contractor cannot defend against claims that preexisting damage was caused by the blasting.

**45. D** — Scope creep is the gradual, undocumented expansion of project scope through informal requests and field decisions. Each individual change seems minor, but the cumulative effect adds significant cost and time. The contractor must track all changes, submit timely change order requests, and obtain written authorization before performing outofscope work.

**46. B** — A JHA breaks each activity into individual steps, identifies the specific hazards associated with each step, and prescribes control measures for each hazard. For structural steel installation, hazards include falls, struckby, crane operations, pinch points, and welding/cutting hazards. The JHA is reviewed with the crew before work begins.

## **DOMAIN 11: SAFETY, RECORDKEEPING, AND ENVIRONMENTAL (Questions 47–50)**

**47. A** — The Manual on Uniform Traffic Control Devices (MUTCD) establishes the national standards for temporary traffic control in work zones. OSHA references the MUTCD as the applicable standard. It covers sign placement, flagging operations, channelizing devices, temporary signals, and worker safety measures for construction on or adjacent to roadways.

**48. C** — Construction in occupied buildings requires additional measures to protect occupants: dust containment barriers, noise mitigation during occupied hours, secure separation between construction and occupied areas, maintained fire protection and egress paths, communication with building management about hazardous activities, and air quality monitoring as appropriate.

**49. D** — A very small quantity generator (formerly CESQG) generates no more than 220 pounds of hazardous waste per month. These generators must properly identify their waste, never accumulate more than 2,200 pounds at any time, and ensure disposal at a permitted facility. Even small generators face regulatory requirements and penalties for improper management.

**50. B** — Silt fence is the most commonly used erosion and sediment control BMP on construction sites. The fabric barrier is installed along the downslope perimeter of disturbed areas to filter suspended sediment from sheetflow runoff while allowing water to pass through. Proper installation, maintenance, and inspection are essential for effectiveness.