

PRACTICE EXAM 11: BUSINESS & LAW EXAM SIMULATION (50 QUESTIONS)

Time Allowed: 120 Minutes (2 Hours)

Total Questions: 50

Passing Score: 70% (35 Correct)

DOMAIN 1: LICENSING REQUIREMENTS (Questions 1–8)

1. A general contractor in Alabama subcontracts the HVAC installation on a \$400,000 commercial project to a mechanical subcontractor. The HVAC subcontract is valued at \$120,000. Midway through the installation, the Licensing Board discovers that the mechanical subcontractor's license expired 60 days ago and has not been renewed. Under Alabama law, who faces potential disciplinary action?

- A. Only the building inspector who failed to catch the expired license during routine inspections
- B. Only the mechanical subcontractor who allowed the license to expire while performing construction work
- C. Only the property owner because the owner is responsible for verifying all subcontractor licenses directly
- D. Both the mechanical subcontractor (for performing work with an expired license) and the general contractor (for failing to verify and ensure that the subcontractor maintained a valid license throughout the project) may face disciplinary action

2. Under Alabama licensing law, a contractor who holds a license in a specific classification (such as "Building" or "Highway") is authorized to perform only the types of work within that classification. A "Building" classification contractor accepts a contract to pave a municipal parking lot — work that falls under the "Highway" classification. Under Alabama law, what violation has occurred?

A. No violation because all Alabama contractor license classifications authorize identical types of work

B. The contractor has performed work outside the authorized classification, which is equivalent to performing unlicensed work — the contractor's "Building" license does not authorize highway/paving work, and the contractor may face disciplinary action for exceeding the scope of licensure

C. The violation applies only if the parking lot exceeds 10,000 square feet in total paved surface area

D. Classification restrictions apply only to residential construction and do not affect commercial paving work

3. A contractor submits an Alabama license application listing 8 years of construction experience. The Board's investigator contacts the references and discovers that two of the three references cannot verify the claimed experience. Under Alabama licensing regulations, what is the likely outcome?

A. The application is automatically approved because one verified reference is sufficient for all classifications

B. The Board must approve the application as submitted because the contractor signed the application under oath

C. The Board may deny the application based on insufficient verified experience — the applicant bears the burden of providing credible documentation and references that substantiate the claimed experience, and unverified claims do not satisfy the licensing requirements

D. The Board must issue a provisional license while the applicant obtains additional reference verifications

4. Under Alabama law, the Licensing Board has the authority to issue a "cease and desist" order against a person who is performing contractor work without a license. What is the legal effect of a cease and desist order?

A. The cease and desist order directs the unlicensed person to immediately stop all construction activities requiring licensure — violation of the order may result in contempt proceedings, additional fines, and criminal prosecution for continued unlicensed contracting

B. A cease and desist order is a polite suggestion that has no legal enforcement power or consequences

- C. The order applies only to advertising and does not affect actual construction work in progress
- D. Cease and desist orders are issued only by federal courts and the Alabama Board has no such authority

5. A licensed contractor in Alabama completes a project and receives final payment. Three years later, the building owner files a complaint with the Licensing Board alleging that the contractor used substandard materials. Under Alabama licensing regulations, is there a time limit for filing complaints with the Board?

- A. Complaints must be filed within 30 days of project completion or they are permanently barred
- B. Complaints must be filed within 6 months of discovering the deficiency with no exceptions allowed
- C. Only complaints filed before final payment is issued may be considered by the Board
- D. The Board's regulations establish the applicable timeframe for filing complaints — while there may be practical limitations based on the passage of time and availability of evidence, the Board generally has authority to investigate complaints related to a licensee's conduct as long as the complaint is timely under the Board's rules

6. Under Alabama law, a contractor who is denied a license by the Board has the right to appeal the decision. What is the first step in the appeal process?

- A. The applicant must file a direct appeal to the Alabama Supreme Court as the first step
- B. The applicant may request a hearing before the Board (or an administrative law judge) to present evidence and argument supporting the license application — this administrative hearing is the first step in challenging the denial before pursuing further judicial review
- C. The applicant must wait five years before reapplying with no right to challenge the original denial
- D. The applicant must file a complaint with the Alabama Attorney General as the only appeal avenue

7. A contractor holds licenses in both Alabama and Mississippi under the reciprocity agreement. The contractor is sued in Mississippi for construction defects and a judgment is

entered against the company. Under Alabama licensing regulations, must the contractor report the Mississippi judgment to the Alabama Board?

A. Yes, the contractor must report the Mississippi judgment to the Alabama Board — most licensing regulations require licensees to disclose legal judgments, disciplinary actions, and significant legal proceedings in any jurisdiction, and failure to report may constitute a separate violation of Alabama's licensing requirements

B. Mississippi legal matters have no relevance to the contractor's Alabama license under any circumstance

C. Only criminal convictions in Mississippi must be reported and civil judgments may be omitted entirely

D. The contractor must report only judgments exceeding \$1,000,000 with smaller amounts excluded

8. Under Alabama licensing law, the Board publishes an annual report summarizing its regulatory activities. What information does this annual report typically include?

A. Only the Board members' personal financial information and salary details are included in the report

B. Only the number of active licenses is reported with no disciplinary or enforcement information

C. The annual report typically includes the number of active licenses, new applications processed, examinations administered, complaints received, investigations conducted, disciplinary actions taken, and financial information about the Board's operations — this public reporting provides transparency and accountability

D. The Board does not publish any reports and all regulatory activities are confidential without exception

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

9. A contractor's estimator is preparing a bid and must determine the appropriate "profit margin" for the project. The estimator considers that this project has a higher risk profile than typical projects because of an aggressive schedule, a difficult owner, and significant liquidated damages. Under standard estimating practice, how should the risk profile affect the profit margin?

- A. The profit margin should be reduced for risky projects to make the bid more competitive and win the job
- B. The profit margin should be increased to compensate for the higher risk — the additional margin provides a financial buffer for the uncertainty, and the contractor's price should reflect the risk being assumed, just as insurance premiums increase for high-risk policies
- C. The profit margin must remain fixed at exactly 10% regardless of the project's risk profile or conditions
- D. Risk has no relationship to profit margin and the two are determined by completely independent factors

10. A contractor is preparing a bid for a project where the specifications include an "allowance" of \$50,000 for site furniture (benches, trash receptacles, bike racks). The contractor is uncertain whether to apply overhead and profit markup to the allowance amount in the bid. Under standard bidding practice, how should allowances be handled regarding markup?

- A. The contractor should include the allowance at the stated \$50,000 in the bid and apply overhead and profit markup only to the difference between the allowance and the actual cost when the items are purchased — the markup on the allowance itself may or may not be included depending on the contract terms
- B. The contractor should always double the allowance amount and add 25% profit as standard practice
- C. Allowances are never subject to any markup and must be excluded entirely from the bid total
- D. The contractor should replace the allowance with the contractor's own estimate regardless of instructions

11. A public entity in Alabama opens bids for a \$5,000,000 school construction project. The apparent low bid is \$4,750,000 from Contractor A. However, the entity discovers that Contractor A was debarred from public work in a neighboring county last year for defective workmanship. Under Alabama's Competitive Bid Law, may the entity reject Contractor A's bid?

- A. No, the entity must always award to the lowest bidder regardless of the bidder's track record or history
- B. No, prior debarments in other jurisdictions have no relevance to the bidder's responsibility determination
- C. The entity must accept the bid but may withhold 50% of each payment as additional retainage for risk

D. Yes, the entity may determine that Contractor A is not a "responsible" bidder based on the prior debarment and the documented defective workmanship — responsibility includes the bidder's ability to perform the work satisfactorily, and a history of poor performance is directly relevant to that determination

12. A contractor is calculating the cost of "temporary utilities" as part of the general conditions estimate for a 12month commercial project. Temporary utilities include temporary electrical power, temporary water service, and temporary gas service. The estimated monthly costs are: power \$1,800, water \$400, gas \$300. What is the total temporary utilities budget?

A. \$30,000 calculated as \$2,500 per month for 12 months with a 10% contingency added automatically

B. \$2,500 because temporary utilities are budgeted for only one month regardless of project duration

C. \$15,000 because only temporary power is included and water and gas are excluded from all estimates

D. The total is $\$2,500 \text{ per month} \times 12 \text{ months} = \$30,000$ for the project duration — temporary power, water, and gas are time-dependent general conditions costs that must be budgeted for every month the project is active

13. A contractor submits a bid on a public project and the instructions to bidders require that all bids remain "firm and irrevocable" for 60 days after the bid opening. Under Alabama bidding law, what does this requirement mean?

A. The contractor may withdraw the bid at any time during the 60day period without consequence

B. The bid amount automatically increases by 5% each week during the 60day firm period

C. The 60day firm period has no legal significance and is merely a suggestion to bidders

D. The contractor's bid price is binding for 60 days — the contractor may not withdraw, modify, or increase the bid during this period, and the public entity may accept the bid at any time within the 60 days; the bid bond guarantees the contractor's commitment for the duration of the firm period

DOMAIN 3: LIEN LAWS (Questions 14–15)

14. Under Alabama's mechanics' lien law, a lien claimant must include specific information in the lien filing (statement of lien) to make it valid. If the lien statement contains a significant error — such as an incorrect property legal description — what effect does this error have on the lien's validity?

A. Errors in the lien statement never affect validity because mechanics' liens are selfcorrecting documents

B. A significant error such as an incorrect legal description may render the lien invalid or unenforceable — the lien statement must accurately identify the property, the claimant, the amount claimed, and the basis for the claim; material errors that prevent the property owner from understanding the claim or that misdirect the lien to the wrong property may be fatal defects

C. Only the claimant's Social Security number must be correct and all other information is optional

D. The lien is automatically valid regardless of any errors as long as it is filed within the statutory timeframe

15. A general contractor files a mechanics' lien on a commercial project and subsequently files a lawsuit to enforce the lien within the required timeframe. During the lawsuit, the property owner asserts that the contractor's work was defective and files a counterclaim for the cost of repairs. Under Alabama law, how does the counterclaim affect the lien enforcement action?

A. The counterclaim has no effect and the lien is always enforced at the full claimed amount without reduction

B. The counterclaim is prohibited because a property owner may not challenge a contractor's lien in any way

C. The court will consider both the contractor's lien claim and the owner's counterclaim for defective work — if the owner proves that the contractor's work was defective, the court may reduce the lien amount by the cost of repairs, potentially offsetting part or all of the contractor's claim

D. The counterclaim automatically extinguishes the mechanics' lien regardless of whether the defect claim is proven

DOMAIN 4: FINANCIAL MANAGEMENT (Questions 16–20)

16. A contractor's accountant discovers that a project's "earned revenue" (based on percentage of completion) significantly exceeds the "billed revenue" (amounts invoiced to the owner). The project is 65% complete but only 50% has been billed. Under standard construction accounting, what condition does this create?

- A. The project is overbilled and the contractor must return the excess payments to the owner immediately
- B. The project shows no financial variance because earned and billed revenue are always equal on all projects
- C. The project has a billing backlog that will selfcorrect without any management attention or action required
- D. The project is underbilled — the contractor has earned more revenue than has been invoiced, creating an asset on the balance sheet ("costs in excess of billings") and a cash flow gap because the contractor has funded work not yet billed; the contractor should accelerate billing to close this gap

17. A contractor's financial statement shows that the company's "inventory turnover ratio" for construction materials is very low — materials are sitting in the warehouse for an average of 120 days before being used. Under financial management principles, what problem does low inventory turnover create?

- A. Low inventory turnover improves the company's profitability by ensuring materials are always available
- B. Low inventory turnover ties up working capital in idle materials, creates storage costs, increases the risk of material damage or obsolescence, and reduces the cash available for other business needs — construction companies should minimize inventory by coordinating deliveries with the construction schedule
- C. Inventory turnover has no financial significance for construction companies regardless of the turnover rate
- D. Low inventory turnover is the optimal condition because having excess materials prevents all project delays

18. A contractor is evaluating a potential project and calculates a "return on investment" (ROI) for the project. The project requires a \$100,000 investment (mobilization, equipment, working

capital) and is projected to generate \$20,000 in net profit. What is the ROI, and is this an acceptable return?

A. The ROI is 20% ($\$20,000 \div \$100,000$), meaning the contractor earns \$0.20 of profit for every dollar invested — whether this is acceptable depends on the contractor's target return, the project's risk level, the investment duration, and the opportunity cost of deploying the \$100,000 on this project versus alternative uses

B. The ROI is \$80,000 calculated by subtracting the profit from the investment amount as a net cost measure

C. ROI cannot be calculated for individual construction projects and applies only to financial investments

D. The ROI is 500% because the project generates revenue that is five times greater than the net profit

19. A contractor reviews the company's financial performance and discovers that the "gross profit margin" has been declining steadily over the past three years — from 14% to 11% to 8%. Under financial management principles, what does this trend indicate?

A. A declining gross profit margin is a positive trend that indicates the company is becoming more efficient

B. The gross margin decline has no financial significance and should be disregarded by company management

C. A declining gross margin always indicates that the company's revenue is growing faster than expected

D. The declining gross profit margin indicates that the company's direct construction costs are consuming an increasing percentage of revenue — causes may include underestimating direct costs during bidding, declining labor productivity, increasing material prices, subcontractor cost overruns, or competitive pressure forcing the company to bid at lower margins

20. A contractor's job cost report shows the following for a commercial project at the 6month mark of a 12month project: original budget \$1,800,000, costs incurred to date \$1,050,000, percent complete 55%, estimated cost to complete \$900,000. What is the projected final cost, and what is the projected profit or loss if the contract price is \$2,000,000?

- A. Projected final cost is \$1,800,000 and projected profit is \$200,000 based on the original budget only
- B. Projected final cost is \$1,050,000 and projected profit is \$950,000 based on costs to date only
- C. The projected final cost is \$1,950,000 (\$1,050,000 incurred + \$900,000 to complete), yielding a projected profit of \$50,000 (\$2,000,000 contract minus \$1,950,000 projected cost) — the project is trending \$150,000 over the original budget but remains profitable by a thin \$50,000 margin
- D. The projection cannot be calculated without knowing the retainage percentage and billing schedule

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

21. Under federal tax law, a construction company that provides health insurance to employees may be eligible for a tax credit under the Affordable Care Act (ACA). What condition must the small construction company meet to qualify for the Small Business Health Care Tax Credit?

- A. All construction companies automatically qualify for the credit regardless of size or employee count
- B. The company must have fewer than 25 fulltime equivalent employees, pay average annual wages below a specified threshold, and contribute at least 50% of the premium cost for employeeonly coverage through the Small Business Health Options Program (SHOP) marketplace
- C. The company must have more than 500 employees and annual revenue exceeding \$50 million per year
- D. The credit is available only to companies that do not provide health insurance to any employee

22. A contractor's workers' compensation policy is audited at the end of the policy year. The auditor discovers that the contractor underreported payroll by \$200,000 — several field workers were paid off the books in cash. Under workers' compensation insurance regulations, what consequences does the contractor face?

- A. The contractor receives a premium refund because unreported payroll reduces the insurance obligation

B. The contractor has underreported payroll which is considered premium fraud — the insurer may assess additional premium on the unreported payroll plus penalty charges, the policy may be canceled, and the contractor may face criminal prosecution for insurance fraud and tax evasion for the offthebooks cash payments

C. Underreporting payroll has no consequence because workers' compensation premiums are fixed annually

D. The contractor faces only the additional premium on the unreported payroll with no penalties or legal action of any type under any regulation

23. Under Alabama law, an employer must provide workers' compensation coverage for corporate officers who actively work in the business. However, corporate officers may elect to exclude themselves from coverage under certain conditions. Under Alabama workers' compensation law, what condition applies to officer exclusions?

A. All corporate officers are automatically excluded from workers' compensation coverage without any election

B. Corporate officers may never exclude themselves and must always be covered under all conditions

C. Only officers who work exclusively in the home office may exclude themselves from coverage

D. Corporate officers may elect to exclude themselves from workers' compensation coverage by filing the appropriate exemption with the insurance carrier — however, excluded officers who are injured on the job receive no workers' compensation benefits and may have limited remedies

24. A contractor is reviewing the company's "loss run report" from the workers' compensation insurance carrier. The report shows five years of claims history including open and closed claims. Under standard insurance practice, what is the primary use of the loss run report?

A. The loss run report is used only for decorating the contractor's office wall with no practical purpose

B. The loss run report shows only the contractor's premium payments with no claims information included

C. The loss run report provides the claims history that new insurance carriers use to calculate the company's premium — when the contractor shops for competitive insurance quotes,

prospective carriers review the loss run to evaluate the risk and determine the appropriate premium rate

D. Loss run reports are available only to contractors with more than 100 employees and annual revenue over \$10 million

25. Under federal tax law, a contractor who hires employees from certain "targeted groups" (such as veterans, exfelons, longterm unemployed individuals, and recipients of certain government assistance) may be eligible for a tax credit. What is this tax credit called?

A. The Work Opportunity Tax Credit (WOTC) provides employers with a tax credit for hiring individuals from targeted groups who face significant barriers to employment — the credit amount varies by the targeted group and the number of hours the employee works during the first year

B. The Construction Industry Employment Credit provides a flat \$10,000 credit for every employee hired

C. The General Business Tax Credit provides a credit based solely on the company's total annual revenue

D. No federal tax credit exists for hiring employees from any targeted group under current tax law

26. A contractor's insurance broker explains that the company's umbrella liability policy will not respond to certain claims because of "underlying insurance requirements." Under standard umbrella policy terms, what must the contractor maintain to ensure the umbrella policy responds to a claim?

A. The umbrella policy responds regardless of whether any underlying insurance exists or is maintained

B. The umbrella policy requires only that the contractor carry a valid driver's license with no insurance required

C. Umbrella policies have no underlying requirements and provide standalone coverage for all claim types

D. The contractor must maintain the underlying primary insurance policies (CGL, auto liability, employer's liability) at the minimum limits required by the umbrella policy — if the underlying insurance lapses or the limits are below the umbrella's requirements, the umbrella policy may not respond, leaving the contractor with a gap in coverage

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

27. Under the Fair Labor Standards Act, a contractor pays nonexempt employees on a biweekly pay schedule (every two weeks). During one biweekly period, a carpenter works 45 hours in the first week and 35 hours in the second week — a total of 80 hours over the two-week period. Under FLSA overtime rules, how many overtime hours must be paid?

- A. Zero overtime hours because the 80-hour biweekly total averages to 40 hours per week exactly
- B. 10 overtime hours because the employee exceeds 80 hours in the biweekly period
- C. Five overtime hours — overtime is calculated on a weekly basis, not a biweekly basis; the first week had 45 hours (5 overtime), and the second week had 35 hours (0 overtime) — the hours from each week cannot be averaged
- D. 40 overtime hours because all hours worked above the standard 40-hour workweek are doubled

28. A contractor's foreman instructs a laborer to clean up a chemical spill on the construction site. The laborer has not received any hazardous materials training and does not know what chemical was spilled. Under OSHA's Hazard Communication standard and HAZWOPER regulations, what violation has occurred?

- A. No violation because laborers are expected to clean up any spill without training as part of their duties
- B. The contractor has violated OSHA's training requirements — employees who may be exposed to hazardous chemicals must receive HazCom training before exposure, and employees who are required to clean up hazardous substance spills must receive HAZWOPER training appropriate to their response level before performing cleanup activities
- C. Only the chemical manufacturer is responsible for providing cleanup training to the contractor's workers
- D. Chemical spill cleanup training is optional for all construction workers and never required by OSHA

29. Under the Americans with Disabilities Act, a construction company with 20 employees receives a job application from a qualified individual who uses a wheelchair. The position is a

project estimator who works in the company's twostory office building, which has no elevator. Under ADA requirements, what must the employer do?

- A. The employer may refuse to hire the applicant because the office lacks an elevator
- B. The employer must immediately construct an elevator regardless of the cost or building structure
- C. The ADA does not apply to twostory office buildings under any circumstances or conditions
- D. The employer must consider reasonable accommodations that would enable the applicant to perform the essential job functions — this may include relocating the estimator's workspace to the first floor, modifying the work arrangement, or other accommodations that do not impose undue hardship on the employer

30. A contractor's HR manager discovers that a supervisor has been requiring employees to work through their unpaid lunch breaks without recording the time. The employees work 8hour shifts with a scheduled 30minute unpaid lunch. Under FLSA, what wage and hour violation has occurred?

- A. No violation because lunch breaks are always unpaid regardless of whether the employee works during them
- B. If employees are required to work during their lunch breaks, the time must be compensated as hours worked — the supervisor's practice creates unrecorded work time that may push employees over 40 hours per week, triggering unpaid overtime liability, and the contractor faces potential backpay claims, liquidated damages, and FLSA penalties
- C. Lunch break violations apply only to government employees and not to private construction workers
- D. The violation is limited to a written warning from the Department of Labor with no financial consequence

31. Under OSHA's construction safety standards, an employer must designate a "competent person" for excavation work. The competent person must be present whenever workers are in or near the excavation. What specific authority must the competent person have to fulfill this role effectively?

- A. The competent person must have the authority to identify existing and predictable hazards in the excavation and the authority to take prompt corrective action to eliminate those hazards

— including the authority to remove workers from the excavation and stop work if unsafe conditions are identified

B. The competent person needs only the authority to file paperwork with OSHA after an incident occurs

C. The competent person requires no specific authority and serves only as an observer with no decision power

D. The competent person must have authority only to order additional portable toilets for the excavation crew

DOMAIN 7: PROJECT MANAGEMENT (Questions 32–34)

32. A contractor is managing a commercial project and the owner issues a "change directive" (also called a "construction change directive") directing the contractor to proceed with changed work immediately while the price is being negotiated. Under standard contract provisions (AIA A201), what is the contractor's obligation when a change directive is issued?

A. The contractor may refuse to perform the directed work until the price is fully agreed upon in writing

B. The contractor must stop all other work on the project until the change directive price is finalized

C. The contractor must proceed with the changed work as directed while continuing to negotiate the price — the contractor must maintain detailed cost records of the changed work, and if the parties cannot agree on a price, the architect determines the amount based on the contractor's documented costs

D. Change directives are not recognized under AIA A201 and the contractor may disregard them entirely

33. A contractor is tracking project costs and notices that the "labor cost variance" is consistently negative (actual labor costs exceed budgeted labor costs) on every work activity. The estimator used industry standard productivity rates in the bid. Under standard project management practice, what are the most likely causes of the systematic labor cost overrun?

A. Systematic labor overruns always indicate that the estimator used the wrong productivity rates with no other possible cause

B. Only material price increases can cause labor cost variances with no other contributing factors possible

C. Labor cost variances are random and cannot be analyzed for root causes under any analytical method

D. Possible causes include lower than estimated crew productivity (due to weather, site conditions, worker skill level, or poor supervision), excessive overtime reducing efficiency, inadequate planning causing rework, scope creep from undocumented changes, or the estimator's productivity rates not reflecting the company's actual field performance

34. A contractor completes a commercial project and the owner occupies the building. During the first month of occupancy, the HVAC system fails to maintain comfortable temperatures. The contractor's mechanical subcontractor troubleshoots the system and determines that the building automation system (BAS) was not properly commissioned. Under standard construction practice, who is responsible for commissioning?

A. The building occupants are responsible for commissioning all building systems after they move in

B. The responsibility for commissioning depends on the contract requirements — if the contract includes a commissioning specification, the contractor (or a thirdparty commissioning agent as specified) must ensure functional performance testing is completed before substantial completion; if commissioning was required but not performed, the contractor must correct the deficiency

C. Only the architect is responsible for commissioning all building systems after the contractor leaves the site

D. Commissioning is never included in construction contracts and is always performed by the equipment manufacturer

DOMAIN 8: CONTRACT MANAGEMENT (Questions 35–40)

35. Under Alabama contract law, a contractor may assert a claim for "unjust enrichment" against a property owner who has received the benefit of the contractor's work without paying for it. Under what circumstances does an unjust enrichment claim differ from a breach of contract claim?

A. Unjust enrichment applies when there is no enforceable contract between the parties — the contractor conferred a benefit on the owner, the owner knowingly received and accepted the

benefit, and it would be inequitable for the owner to retain the benefit without paying for it; a breach of contract claim requires a valid enforceable contract

B. Unjust enrichment and breach of contract are identical legal theories with no distinction in any jurisdiction

C. Unjust enrichment applies only when a valid contract exists between the parties in Alabama

D. Unjust enrichment claims are not recognized under Alabama law and have never been used in the state

36. A construction contract includes a "suspension clause" that allows the owner to suspend the work for a specified period. The owner exercises this right and suspends work for 45 days. When work resumes, the contractor discovers that exposed steel reinforcement has rusted, temporary weather protection has deteriorated, and the concrete forms have warped due to prolonged exposure. Under standard contract provisions, who bears the cost of these suspension-related damages?

A. The contractor bears all costs because the contractor should have anticipated the suspension indefinitely

B. The contractor bears only the first \$10,000 of suspension-related costs with the remainder paid by the owner

C. The owner is generally responsible for the costs of remobilization and any damage to the work caused by the owner-directed suspension — the contractor is entitled to a change order covering the cost to repair rusted rebar, replace deteriorated protection, replace warped forms, and remobilize the workforce

D. Neither party bears any cost because suspension-related damages are uninsurable and unrecoverable

37. A contractor is reviewing a proposed contract that includes an "exculpatory clause" stating that the owner shall not be liable for any damages resulting from the owner's own negligence. Under Alabama law, what is the enforceability of this clause?

A. Exculpatory clauses are always enforceable in all Alabama construction contracts without any limitation

B. Exculpatory clauses that attempt to relieve a party from liability for their own negligence are invalid

C. Exculpatory clauses apply only when both parties are corporations and not when either is an individual

D. Alabama courts generally disfavor exculpatory clauses that attempt to relieve a party from liability for their own negligence — similar to Alabama's antiindemnity statute, courts may refuse to enforce such clauses as contrary to public policy, particularly when they attempt to shift the consequences of one party's negligence entirely to the other party

38. Under Alabama contract law, the doctrine of "waiver" may affect a party's ability to enforce contract provisions. If the owner repeatedly accepts late progress payment applications from the contractor without objection for 8 consecutive months, has the owner waived the right to reject a late submission in month 9?

A. The owner's consistent acceptance of late submissions without objection may constitute a waiver of the timely submission requirement — the contractor reasonably relied on the owner's course of conduct, and the owner may need to provide reasonable notice of intent to strictly enforce the deadline before rejecting a late submission

B. The owner may strictly enforce the deadline at any time without notice regardless of prior acceptance

C. Waiver applies only to payment disputes and never to submission timing requirements in construction

D. The owner automatically waives all contract provisions after accepting six consecutive late submissions

39. A contractor is negotiating a subcontract and the subcontractor demands a "price escalation clause" that adjusts the subcontract price if material prices increase by more than 5% from the bid date. Under standard construction practice, what is the contractor's primary concern with accepting this clause?

A. Price escalation clauses are always beneficial to the general contractor with no disadvantages

B. The contractor's primary concern is that the escalation clause creates an openended cost exposure — if material prices increase significantly, the subcontract cost increases but the general contractor's lump sum contract price with the owner does not, meaning the GC must absorb the escalation unless the prime contract also includes an escalation provision

C. Price escalation clauses apply only to labor costs and never to materials in construction subcontracts

D. The contractor has no concern because all escalation costs are automatically passed through to the owner

40. A contractor completes a project and submits the final closeout package including asbuilt drawings, operation and maintenance manuals, warranties, and final lien waivers. The owner refuses to release the final retainage payment, claiming that the asbuilt drawings are incomplete. Under standard contract provisions, is the owner's withholding justified?

A. The owner's withholding may be justified if the asbuilt drawings are a contractual closeout requirement and the contractor has not fulfilled this obligation — however, the amount withheld should be proportional to the value of the incomplete deliverable, and the owner may not withhold the entire retainage for a minor documentation deficiency

B. The owner must release all retainage immediately regardless of the status of closeout documentation

C. Asbuilt drawings are never a contractual requirement and the owner has no basis to withhold payment

D. The owner may withhold the entire retainage permanently and never release it for any documentation issue

DOMAIN 9: BUSINESS ORGANIZATION (Questions 41–42)

41. A contractor operates as a corporation and wants to issue additional shares of stock to raise capital for expansion. Under Alabama corporate law, what process must the corporation follow to issue new shares?

A. The corporation may issue shares without any authorization or approval from anyone at any time

B. The board of directors must authorize the share issuance, and the number of shares may not exceed the authorized shares in the articles of incorporation without shareholder approval of an amendment

C. Only the Alabama Licensing Board may authorize the issuance of corporate shares for construction companies

D. The board of directors must authorize the issuance, the new shares must not exceed the authorized shares specified in the articles of incorporation (or the articles must be amended)

with shareholder approval to increase the authorized shares), and the issuance must comply with federal and state securities laws

42. A contractor operates as a multimember LLC and the operating agreement includes a "buyout provision" that establishes the formula for valuing a departing member's interest. The formula values the interest at "book value" based on the company's balance sheet. Under financial management principles, why might book value understate the true value of the departing member's interest?

A. Book value always overstates the true value of a construction company's interest without exception

B. Book value reflects the historical cost of assets minus depreciation, which may significantly understate the company's actual market value — the company's goodwill, established client relationships, backlog of contracted work, trained workforce, and equipment at fair market value may all exceed their book value, meaning the departing member receives less than the interest is actually worth

C. Book value and market value are always identical for construction companies under all conditions

D. Book value understates the interest only for companies with fewer than three employees

DOMAIN 10: RISK MANAGEMENT (Questions 43–46)

43. A contractor is constructing a commercial building and the project involves crane operations adjacent to an active power line. Under OSHA's construction safety standards and standard risk management practice, what minimum clearance distance must be maintained between the crane and the power line?

A. The minimum clearance depends on the voltage of the power line — for lines up to 50 kV, the minimum distance is 10 feet, and the distance increases for higher voltages; the contractor must also designate a signal person, use proximity alarms, and consider having the utility company deenergize or relocate the line

B. No minimum clearance distance is required for crane operations near power lines on construction sites

C. Only 2 feet of clearance is needed between the crane and any power line regardless of the voltage level

D. A minimum clearance of 100 feet is required for all power lines regardless of voltage on all projects

44. Under Alabama law, a contractor who discovers an underground storage tank (UST) during excavation at a commercial construction site must take specific actions. What is the contractor's primary obligation upon discovering a UST?

A. The contractor must immediately remove the UST and dispose of it in the nearest construction dumpster

B. The contractor must cap the UST and bury it deeper to avoid interference with the foundation design

C. Underground storage tanks have no regulatory significance and the contractor may ignore the discovery

D. The UST discovery requires no further action from the contractor beyond documenting its location

45. A contractor's safety program includes a "behaviorbased safety" (BBS) component that focuses on observing worker behavior to identify and correct unsafe practices before they cause injuries. Under standard safety management principles, what is the key element of a BBS program?

A. BBS programs focus exclusively on punishing workers who are observed performing unsafe acts

B. BBS programs are used only in manufacturing and have no application to construction safety

C. BBS programs focus only on the physical condition of equipment with no observation of worker behavior

D. Trained observers conduct regular peer observations of workers performing tasks, providing positive feedback for safe behaviors and coaching for observed atrisk behaviors — the focus is on identifying the root causes of unsafe behavior (time pressure, inadequate training, poor procedures) rather than blaming the individual worker

46. A contractor is evaluating the risk of a "professional liability" claim on a designbuild project. The contractor's inhouse design team prepared the structural drawings, and a column

design error is discovered during construction. Under standard risk management practice, what insurance policy responds to this claim?

- A. The standard CGL policy covers all design errors committed by the contractor's inhouse design team
- B. Professional liability (errors and omissions) insurance responds to claims arising from design errors — the CGL policy's "professional services" exclusion denies coverage for designrelated claims, making separate professional liability coverage essential for designbuild contractors who provide design services
- C. Workers' compensation insurance covers structural design errors on all construction projects
- D. Builder's risk insurance covers all design errors and professional mistakes during construction

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

47. Under OSHA's construction safety standards, a contractor must implement a "respiratory protection program" when workers are exposed to airborne contaminants above permissible exposure limits. What are the key elements of a respiratory protection program?

- A. Only providing respirators to workers is sufficient with no additional program elements needed at all
- B. Workers may select any type of respirator regardless of the contaminant or concentration present
- C. A respiratory protection program must include a written program, hazard assessment, respirator selection based on the specific contaminant, medical evaluation to ensure workers can safely wear respirators, fit testing for tightfitting respirators, employee training, and proper maintenance and storage of respiratory equipment
- D. Respiratory protection programs are required only in underground mining and not in construction

48. A contractor is performing demolition of a commercial building and discovers that the building's exterior siding contains "transite" panels (cementasbestos board). Under EPA and OSHA asbestos regulations, how must the transite panels be handled during demolition?

- A. Transite panels must be carefully removed intact (without breaking, cutting, or grinding) to minimize fiber release, using wet methods to suppress dust, by trained and protected workers following OSHA's asbestos construction standard — broken transite generates friable asbestos fibers that pose serious inhalation hazards
- B. Transite panels are nonhazardous and may be demolished with standard heavy equipment without precautions
- C. Only transite panels manufactured before 1950 contain asbestos and all later panels are asbestosfree
- D. Transite panels may be burned onsite as the standard disposal method for cementasbestos materials

49. Under OSHA's construction safety standards, a contractor must protect workers from "crystalline silica" exposure during construction activities such as concrete cutting, masonry grinding, and sandblasting. What is the permissible exposure limit (PEL) for respirable crystalline silica under OSHA's silica standard for construction?

- A. The PEL for respirable crystalline silica is 100 milligrams per cubic meter averaged over an 8hour shift
- B. There is no OSHA PEL for silica in construction because silica is classified as a nonhazardous material
- C. The PEL for silica is 50 milligrams per cubic meter for construction workers during all shift durations
- D. The PEL for respirable crystalline silica is 50 micrograms per cubic meter of air ($50 \mu\text{g}/\text{m}^3$) as an 8hour timeweighted average — employers must implement engineering controls (water suppression, vacuum extraction, enclosed cabs), provide respiratory protection when controls are insufficient, offer medical surveillance, and train workers on silica hazards

50. A contractor is managing stormwater on a 3acre commercial construction site under an NPDES Construction General Permit. After a heavy rainstorm, the contractor's SWPPP inspector observes that a silt fence has been damaged and sedimentladen runoff is leaving the site and entering an adjacent storm drain. Under NPDES permit requirements, what immediate action must the contractor take?

- A. The contractor should wait for the next scheduled inspection date to document the silt fence damage
- B. The contractor must immediately repair or replace the damaged silt fence, install additional BMPs as needed to stop the sediment discharge, clean up any sediment that has entered the storm drain, document the incident and corrective actions in the SWPPP inspection log, and report the discharge to ADEM if it constitutes a permit violation
- C. The contractor should remove all remaining silt fences from the site to prevent future damage
- D. No action is required because stormwater discharges during heavy rain are always exempt from permits

Practice Exam 11: Answer Key and Explanations

DOMAIN 1: LICENSING REQUIREMENTS (Questions 1–8)

1. D — Both the subcontractor and the general contractor may face disciplinary action. The subcontractor violated licensing law by working with an expired license, and the GC has a duty to verify that subcontractors maintain valid licenses throughout the project. The GC's failure to monitor subcontractor licensing status is itself a regulatory violation.
2. B — Performing work outside the authorized license classification is equivalent to performing unlicensed work. A "Building" classification does not authorize highway or paving work, which falls under a separate classification. The contractor must hold the correct classification for each type of work performed or engage a properly classified subcontractor.
3. C — The Board may deny the application when claimed experience cannot be adequately verified. The applicant bears the burden of providing credible references and documentation. When two of three references cannot confirm the experience, the application lacks sufficient evidence to satisfy the Board's experience requirements.
4. A — A cease and desist order legally compels the unlicensed person to immediately stop all construction activities requiring licensure. Violating the order may result in contempt of court proceedings, additional fines, and criminal prosecution. The order is an enforcement tool that provides immediate protection to the public.
5. D — The Board's regulations establish the applicable timeframe for filing complaints. While practical limitations may exist due to evidence availability and the passage of time, the Board generally retains authority to investigate licensee conduct as long as the complaint falls within the Board's jurisdictional timeframe.

6. B — The first step in challenging a license denial is requesting an administrative hearing before the Board or an administrative law judge. At this hearing, the applicant may present evidence and argument supporting the application. If the hearing outcome is unfavorable, the applicant may then pursue judicial review through the courts.

7. A — Most licensing regulations require licensees to disclose legal judgments, disciplinary actions, and significant legal proceedings in any jurisdiction. Failure to report a Mississippi judgment to the Alabama Board may constitute a separate violation of Alabama's licensing requirements, potentially triggering independent disciplinary action.

8. C — The annual report provides transparency about the Board's regulatory activities. It typically includes license statistics, application volumes, examination results, complaint and investigation summaries, disciplinary actions taken, and financial information. Public reporting ensures accountability and allows stakeholders to evaluate the Board's effectiveness.

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

9. B — High-risk projects warrant higher profit margins to compensate for the increased uncertainty. The aggressive schedule, difficult owner, and significant liquidated damages all increase the probability of cost overruns and disputes. The additional margin creates a financial buffer that protects the contractor's bottom line if risks materialize.

10. A — The contractor includes the allowance at its stated value in the bid. Whether overhead and profit markup is applied to the allowance itself depends on the specific contract terms. The markup is typically applied to the difference between the allowance and the actual cost when the items are purchased and the contract is adjusted.

11. D — The public entity may determine that Contractor A is not a "responsible" bidder based on the prior debarment and documented defective workmanship. Responsibility includes the ability to perform satisfactorily, and a track record of poor performance directly undermines that determination. The entity may award to the next lowest responsive, responsible bidder.

12. D — Temporary utilities at \$2,500 per month for 12 months equals \$30,000. Power (\$1,800), water (\$400), and gas (\$300) are all time-dependent costs that continue every month the project is active. Omitting any utility or underestimating the duration creates a budget shortfall in general conditions.

13. D — A "firm and irrevocable" bid commitment means the contractor's price is binding for the stated 60-day period. The contractor cannot withdraw, modify, or increase the bid during this time. The bid bond guarantees this commitment, and failure to honor the bid results in forfeiture of the bid security.

DOMAIN 3: LIEN LAWS (Questions 14–15)

14. B — A significant error in the lien statement — particularly an incorrect legal description — may render the lien invalid. The lien must accurately identify the property, the claimant, the amount, and the basis for the claim. Material errors that prevent identification of the correct property or mislead the owner about the claim may be fatal defects.

15. C — The court considers both the contractor's lien claim and the owner's counterclaim for defective work. If the owner proves defective workmanship, the court may reduce the lien amount by the cost of necessary repairs. The lien amount is not automatically enforced at face value when legitimate counterclaims exist.

DOMAIN 4: FINANCIAL MANAGEMENT (Questions 16–20)

16. D — When earned revenue (65% complete) exceeds billed revenue (50% billed), the contractor has underbilled. This creates an asset on the balance sheet ("costs in excess of billings") and a cash flow gap because work has been performed but not invoiced. The contractor should accelerate billing to close the gap and recover the cash invested in unbilled work.

17. B — Low inventory turnover ties up working capital in idle materials, creates storage and handling costs, increases the risk of damage or obsolescence, and reduces cash available for other business needs. Construction companies should minimize onsite inventory by coordinating justintime deliveries with the construction schedule.

18. A — ROI is \$20,000 profit divided by \$100,000 investment = 20%. Whether this is acceptable depends on the contractor's target return, the project's risk level, the investment duration, and the opportunity cost of deploying capital on this project versus alternatives. A 20% ROI may be excellent for a lowrisk project but inadequate for highrisk work.

19. D — A declining gross profit margin from 14% to 8% over three years indicates that direct costs are consuming an increasing share of revenue. Causes may include underestimating in bids, declining productivity, rising material prices, subcontractor overruns, or competitive pressure forcing lower margins. The trend threatens longterm viability.

20. C — Projected final cost is \$1,050,000 incurred plus \$900,000 to complete = \$1,950,000. Against the \$2,000,000 contract price, the projected profit is \$50,000. While the project remains profitable, it is \$150,000 over the original \$1,800,000 budget, and the thin \$50,000 margin leaves little room for additional cost growth.

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

21. B — The Small Business Health Care Tax Credit requires fewer than 25 fulltime equivalent employees, average wages below the specified threshold, and a minimum 50% employer contribution toward employeeonly coverage through the SHOP marketplace. These criteria target small employers who might otherwise be unable to provide health coverage.

22. D — Underreporting payroll by paying workers off the books constitutes premium fraud, tax evasion, and workers' compensation violations. The insurer may assess additional premium plus penalties, cancel the policy, and refer the matter for criminal prosecution. The offthebooks payments also violate IRS reporting requirements and FICA obligations.

23. D — Alabama law allows corporate officers to elect exclusion from workers' compensation coverage by filing the appropriate exemption. However, excluded officers who are injured receive no workers' compensation benefits and may have limited remedies. Officers should carefully weigh the premium savings against the loss of coverage.

24. C — The loss run report provides five years of claims history that prospective insurance carriers use to evaluate risk and calculate premiums. When shopping for competitive quotes, the contractor must provide loss runs to each prospective carrier. A clean loss history results in lower premiums, while a poor history increases costs.

25. A — The Work Opportunity Tax Credit (WOTC) provides employers with a tax credit for hiring individuals from targeted groups facing employment barriers — including veterans, exfelons, longterm unemployed, and recipients of certain government assistance. The credit amount varies by group and hours worked, typically ranging from \$1,200 to \$9,600 per qualifying employee.

26. D — The umbrella policy requires the contractor to maintain underlying primary insurance (CGL, auto, employer's liability) at specified minimum limits. If underlying coverage lapses or the limits fall below the umbrella's requirements, the umbrella may not respond to claims, creating a dangerous gap in the contractor's liability protection.

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

27. C — FLSA overtime is calculated on a workweek basis, not a biweekly or monthly basis. The first week had 45 hours (5 overtime hours at 1.5×), and the second week had 35 hours (zero overtime). The employer cannot average the two weeks to avoid overtime — each workweek stands alone for overtime calculation purposes.

28. B — The contractor violated OSHA's training requirements by directing an untrained worker to handle a chemical spill. HazCom training is required before any chemical exposure, and HAZWOPER training is required before workers participate in hazardous substance cleanup. Sending an untrained worker into a chemical spill creates immediate health and safety risks.

29. D — The ADA requires the employer to consider reasonable accommodations. Relocating the estimator's workspace to the first floor is a straightforward accommodation that enables the qualified applicant to perform the essential job functions without imposing undue hardship. The employer cannot refuse to hire based on disability if a reasonable accommodation exists.

30. B — Under FLSA, if employees work during lunch breaks (whether voluntarily or by direction), the time must be compensated as hours worked. Unrecorded work time may push employees over 40 hours per week, creating unpaid overtime liability. The contractor faces potential backpay claims, liquidated damages, and FLSA penalties.

31. A — The competent person for excavation must have both the knowledge to identify hazards and the authority to take immediate corrective action. This includes the authority to stop work, remove workers from the excavation, and implement protective measures without waiting for management approval. Without corrective authority, the competent person role is ineffective.

DOMAIN 7: PROJECT MANAGEMENT (Questions 32–34)

32. C — Under AIA A201, the contractor must proceed with the changed work as directed by the construction change directive while continuing to negotiate the price. The contractor must

maintain detailed cost records documenting actual costs of the changed work. If the parties cannot agree on a price, the architect determines the amount based on the documented costs.

33. D — Systematic labor overruns may have multiple causes: lower crew productivity from weather or site conditions, excessive overtime reducing efficiency, rework from inadequate planning, scope creep from undocumented changes, worker skill level below what was assumed, or the estimator's productivity rates not reflecting actual field performance. Root cause analysis is essential.

34. B — Commissioning responsibility depends on the contract requirements. If the contract includes a commissioning specification, the contractor must ensure functional performance testing is completed before substantial completion. Failure to commission a required system is a contract deficiency that the contractor must correct at no additional cost.

DOMAIN 8: CONTRACT MANAGEMENT (Questions 35–40)

35. A — Unjust enrichment applies when no enforceable contract exists — the contractor provided a benefit, the owner knowingly accepted it, and retention without payment would be inequitable. Breach of contract requires a valid enforceable agreement. Unjust enrichment is the equitable remedy when contracts are void, unenforceable, or when work exceeds the contract scope without written authorization.

36. C — The owner is generally responsible for costs caused by the owner-directed suspension. The contractor is entitled to a change order covering repairs to rusted rebar, replacement of deteriorated weather protection, replacement of warped forms, and remobilization costs. The suspension was the owner's decision, and the resulting damages are the owner's responsibility.

37. D — Alabama courts generally disfavor exculpatory clauses that attempt to relieve a party from liability for their own negligence. Similar to the anti-indemnity statute, courts may refuse to enforce these clauses as contrary to public policy. A party should not be able to contractually eliminate the consequences of their own negligent conduct.

38. A — The owner's consistent acceptance of late submissions without objection for 8 months may constitute a waiver of the timely submission requirement through course of conduct. The contractor reasonably relied on this pattern. The owner should provide reasonable notice of intent to strictly enforce the deadline before rejecting a late submission.

39. B — A price escalation clause creates open-ended cost exposure for the GC. If material prices rise, the subcontract cost increases but the GC's lump sum prime contract does not adjust. The GC absorbs the escalation unless the prime contract also contains an escalation provision — the contractor must evaluate whether the prime contract provides a passthrough mechanism.

40. A — The owner's withholding may be justified if as-built drawings are a contractual closeout requirement. However, the withheld amount should be proportional to the value of the incomplete deliverable. Withholding the entire retainage for a minor documentation deficiency would be disproportionate and potentially constitute a breach of the owner's payment obligations.

DOMAIN 9: BUSINESS ORGANIZATION (Questions 41–42)

41. D — Issuing new shares requires board authorization, compliance with the authorized share limits in the articles of incorporation (or shareholder-approved amendment to increase authorized shares), and compliance with federal and state securities laws. The corporation cannot issue more shares than authorized without amending the articles with shareholder approval.

42. B — Book value reflects historical cost minus depreciation, which may significantly understate market value. Goodwill, client relationships, contracted backlog, trained workforce, and equipment at fair market value may all exceed book value. A departing member valued at book value may receive substantially less than the interest is actually worth on the open market.

DOMAIN 10: RISK MANAGEMENT (Questions 43–46)

43. A — OSHA requires minimum clearance distances between cranes and power lines based on voltage. For lines up to 50 kV, the minimum is 10 feet, with greater distances for higher voltages. Additional safety measures include designated signal persons, proximity alarms, and potentially requesting the utility to deenergize or relocate the line.

44. D — Upon discovering a UST, the contractor must stop work in the affected area, document the discovery, and notify the property owner, the environmental consultant, and ADEM. The UST may contain petroleum products or hazardous substances that require assessment and potential remediation before construction can proceed. Unauthorized removal creates environmental liability.

45. D — Behavior-based safety programs use trained observers to conduct peer observations, provide positive reinforcement for safe behaviors, and coach workers on at-risk behaviors. The focus is on identifying root causes (time pressure, poor training, inadequate procedures) rather than blaming individuals. BBS programs consistently reduce injury rates when implemented properly.

46. B — The CGL policy's professional services exclusion denies coverage for design errors. Professional liability (E&O) insurance is the policy that responds to claims arising from negligent design services. Design-build contractors who provide in-house design must carry professional liability coverage to protect against design-related claims.

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

47. C — A respiratory protection program must include a written program, hazard assessment, proper respirator selection, medical evaluation of workers, fit testing for tight-fitting respirators, employee training, and maintenance and storage procedures. Simply distributing respirators without these program elements violates OSHA's standard and fails to protect workers effectively.

48. A — Transite (cement-asbestos board) must be removed intact using careful manual methods and wet suppression to minimize fiber release. Breaking, cutting, or grinding transite

generates friable asbestos fibers that pose serious inhalation hazards. Workers must be trained and equipped with appropriate PPE per OSHA's asbestos construction standard.

49. D — The OSHA PEL for respirable crystalline silica in construction is 50 micrograms per cubic meter ($50 \mu\text{g}/\text{m}^3$) as an 8hour TWA. Employers must implement engineering controls, provide respiratory protection when controls are insufficient, offer medical surveillance for workers exposed above the action level, and train workers on silica hazards.

50. B — The contractor must immediately repair the damaged silt fence, install additional BMPs to stop the sediment discharge, clean up sediment that entered the storm drain, document the incident and corrective actions in the SWPPP log, and report the discharge to ADEM if it constitutes a permit violation. Prompt corrective action is both a regulatory requirement and a practical necessity.