

PRACTICE EXAM 2: 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 holds an Alabama license with a monetary limitation of \$500,000. The contractor is the apparent low bidder on a school renovation project valued at \$625,000. The contractor has not applied for a license upgrade. Under Alabama licensing law, what is the status of this bid?

- A. The bid is valid because the contractor may exceed the monetary limit by up to 25% on public projects
- B. The bid is invalid because the contractor's license monetary limitation is less than the project value — the contractor must hold a license with a limit equal to or greater than the project value at the time the bid is submitted
- C. The bid is valid as long as the contractor applies for the upgrade within 10 days of being awarded the contract
- D. The bid is valid because monetary limitations apply only to private projects and not to public school work

2. Under Alabama law, a contractor's license must be renewed annually. What happens if a contractor allows the license to expire and continues to perform construction work requiring licensure?

- A. The contractor receives an automatic 90day grace period during which all work may continue without penalty

- B. The expired license remains valid for all projects that were under contract before the expiration date
- C. The contractor may continue working but must pay a 10% surcharge on all project billings until renewed
- D. The contractor is operating without a valid license and is subject to the same penalties as an unlicensed contractor — fines up to \$6,000, imprisonment up to one year, and unenforceability of contracts

3. A partnership consisting of three individuals wants to obtain an Alabama general contractor's license. Under Alabama licensing law, which of the following requirements applies to the partnership's application?

- A. At least one partner must serve as the qualifying party who meets the experience, knowledge, and competency requirements for licensure — the license is issued to the partnership entity with the qualifying party identified on the license
- B. All three partners must individually pass the licensing examination and each must hold a separate license
- C. Partnerships are not permitted to hold contractor licenses in Alabama — only corporations and sole proprietors may be licensed
- D. The partnership must designate a nonpartner employee as the qualifying party because partners are prohibited from serving in this role

4. Under Alabama law, a licensed contractor must notify the Licensing Board of certain changes to the business. Which of the following changes requires notification to the Board?

- A. A change in the company's preferred office supply vendor for administrative materials
- B. A change in the color of the company's fleet vehicles used for transportation to job sites
- C. A change in the qualifying party, business structure, company name, or address — any of these changes must be reported to the Board within a specified timeframe to maintain the license's validity
- D. A change in the contractor's personal cell phone number used for nonbusiness communications

5. A contractor applies for an Alabama license and must demonstrate construction experience. Under Alabama licensing requirements, how must the applicant document the required experience?

A. A verbal statement to the Board during the interview is sufficient to verify all claimed experience

B. The applicant must submit documentation of at least three completed construction projects within the past three years, along with three personal references who can attest to the applicant's experience and character

C. No experience documentation is required — only passage of the written examination is needed

D. The applicant must submit a college transcript showing a four-year degree in construction management

6. Under Alabama law, the Licensing Board for General Contractors has the authority to take disciplinary action against a licensee for specified violations. Which of the following actions may the Board take against a licensee found guilty of misconduct?

A. The Board may only issue a verbal warning with no further consequences for any violation

B. The Board may only require the licensee to attend a one-hour continuing education seminar

C. The Board may only suspend the license for a maximum of 7 days regardless of the violation

D. The Board may revoke, suspend, or refuse to renew the license, impose fines, or place conditions on the license depending on the nature and severity of the violation

7. A contractor wants to register to take the NASCLA trade examination required for Alabama licensure. Under the current examination system, how does the contractor register for the trade exam?

A. The contractor registers through the NASCLA National Examination Database (NED) portal to schedule the computer-based trade examination at an approved testing center

B. The contractor registers directly with the Alabama Licensing Board by submitting a paper form by mail

C. The contractor registers by appearing in person at the Board's office in Montgomery during business hours

D. No registration is required — the contractor may walk in to any testing center and take the exam at any time

8. Under Alabama law, a subcontractor performing work on a project where the total subcontract value exceeds the licensing threshold must also hold a valid contractor's license. What license classification applies to subcontractors?

A. Subcontractors are completely exempt from licensing requirements regardless of the dollar value of work

B. Subcontractors need only a municipal business license and are not regulated by the state Licensing Board

C. Subcontractors performing work valued above the \$50,000 threshold must hold the appropriate license classification for their trade specialty or a general contractor's license covering their scope of work

D. Subcontractors must hold a federal contractor registration but not a state license for work in Alabama

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

9. A contractor is preparing a detailed estimate for a commercial office building. The estimator calculates the direct cost of all labor, materials, equipment, and subcontractors. After totaling the direct costs, the estimator must add general conditions costs. Which of the following is a typical general conditions cost item?

A. The cost of reinforcing steel purchased specifically for the building's structural foundation system

B. The cost of the roofing subcontractor's labor to install the complete commercial roofing system

C. The cost of interior paint and finish materials specified by the architect for the occupied spaces

D. The salary of the project superintendent assigned fulltime to the construction site for the project duration

10. A contractor submits a bid on a public project and is the apparent low bidder. After the bid opening, the owner discovers that the contractor failed to acknowledge receipt of Addendum

#2, which modified the electrical scope. Under standard public bidding procedures, what is the likely consequence?

- A. The bid may be declared nonresponsive because failure to acknowledge all addenda is a material deficiency in the bid submission — the owner may reject the bid and award to the next lowest responsive, responsible bidder
- B. The contractor's bid is automatically adjusted upward by the estimated value of the addendum changes
- C. The owner must accept the bid because the low bidder always wins regardless of bid deficiencies
- D. The addendum acknowledgment is optional and has no effect on bid responsiveness or the award decision

11. A contractor is evaluating the profitability of a potential project during the estimating phase. The estimator calculates a gross margin of 8% on the project. What does the gross margin represent?

- A. Gross margin represents the total revenue the contractor expects to collect from the owner for the project
- B. Gross margin represents the percentage of revenue remaining after deducting all direct project costs
- C. The gross margin is the percentage of total revenue remaining after deducting the direct costs of construction (labor, materials, equipment, subcontractors) — it represents the amount available to cover the contractor's overhead and profit
- D. Gross margin is identical to net profit and represents the contractor's takehome earnings from the project

12. A contractor receives five subcontractor bids for the mechanical trade package on a commercial project. The bids range from \$320,000 to \$425,000. The lowest bid at \$320,000 is significantly below the next bid at \$385,000. What should the estimator do before incorporating the \$320,000 bid?

- A. The estimator should contact the low bidder to verify the scope of work included, check for possible errors or exclusions, and confirm that the subcontractor intends to honor the quoted

price — a bid significantly below the competition may indicate a scope gap, mathematical error, or unsustainable pricing

B. The estimator must always use the lowest bid without any verification because the law requires it

C. The estimator should average all five bids and use the average as the mechanical cost in the estimate

D. The estimator should automatically reject the lowest bid because it is more than 10% below the next bid

13. Under Alabama law, a contractor bidding on a statefunded public project must comply with the competitive bidding requirements of the Alabama Competitive Bid Law. What is the threshold above which competitive bidding is required for public construction projects?

A. \$5,000 for all public construction projects funded by state or local government in Alabama

B. \$100,000 for all public construction projects funded by state or local government in Alabama

C. No competitive bidding threshold exists — all public projects may be awarded without bidding

D. \$50,000 for public construction projects, matching the contractor licensing threshold under Alabama law

DOMAIN 3: LIEN LAWS (Questions 14–15)

14. Under Alabama's mechanics' lien law, a subcontractor or material supplier who is not in direct contract with the property owner (a "remote" claimant) must take an additional step to preserve lien rights that the general contractor does not have to take. What is this additional requirement?

A. The remote claimant must file a separate lawsuit against the owner before the lien can be filed

B. The subcontractor or material supplier must provide a preliminary notice to the property owner within a specified timeframe, informing the owner that the claimant is furnishing labor or materials for the project and intends to look to the property for payment if not paid by the contractor

C. The remote claimant must obtain a court order before providing any labor or materials to the project

D. No additional steps are required — subcontractors and suppliers have the same filing procedures as the general contractor

15. Under Alabama law, a mechanics' lien is a claim against real property. To enforce the lien, the lien claimant must take legal action within a specific timeframe after filing the lien. Within what period must the lien claimant file a lawsuit to enforce the mechanics' lien?

A. The lien claimant must file a lawsuit to enforce the lien within 6 months after filing the lien statement — failure to file suit within this period extinguishes the lien

B. The lien claimant has 5 years from the date of filing to enforce the lien through legal action

C. No lawsuit is required — the lien automatically results in payment from the property owner upon filing

D. The lien claimant must file suit within 30 days of filing the lien or the lien is permanently extinguished

DOMAIN 4: FINANCIAL MANAGEMENT (Questions 16–20)

16. A contractor is reviewing the company's income statement (profit and loss statement) for the fiscal year. The statement shows total revenue of \$3,000,000 and total expenses of \$2,850,000. What is the company's net profit, and what does it represent?

A. The net profit is \$2,850,000 because net profit equals total expenses for the fiscal year

B. The net profit is \$3,000,000 because net profit always equals total revenue regardless of expenses

C. The net profit is \$150,000 (\$3,000,000 revenue minus \$2,850,000 expenses) — it represents the company's bottomline earnings after all costs of operations, overhead, taxes, and interest have been deducted from revenue

D. The net profit cannot be determined from an income statement and requires a separate financial analysis

17. A contractor is managing cash flow on a large commercial project. The project has a 90day billing cycle — the contractor submits a pay application on the 25th of each month, the architect

reviews it for 10 days, and the owner pays 30 days after the architect's certification. The contractor must fund all construction costs during this period. What financial management tool helps the contractor plan for this cash flow gap?

- A. A material takeoff list that quantifies the exact amount of each building material needed for the project
- B. A project organizational chart showing the reporting relationships among all project team members
- C. A CPM schedule showing the critical path activities and their durations for the project timeline
- D. A cash flow projection that forecasts the timing and amount of all anticipated income (pay applications) and expenditures (payroll, material purchases, subcontractor payments) over the project duration

18. A contractor's balance sheet shows the following: cash \$50,000, accounts receivable \$200,000, inventory \$30,000, equipment \$300,000, building \$400,000, accounts payable \$150,000, notes payable \$250,000, longterm debt \$350,000. What is the contractor's current ratio, and what does it indicate?

- A. The current ratio is 5.0, indicating the company has five times more total assets than total liabilities
- B. The current ratio is 1.87 (current assets of \$280,000 divided by current liabilities of \$150,000) — a ratio above 1.0 indicates the company has more current assets than current liabilities and can meet its shortterm obligations
- C. The current ratio is 0.50, indicating the company is at risk of insolvency and cannot pay its bills
- D. The current ratio cannot be calculated from balance sheet information alone without the income statement

19. A contractor completes a project and submits the final pay application. The owner disputes several items and withholds \$75,000 from the final payment. Under Alabama law, what options does the contractor have to resolve this payment dispute?

- A. The contractor may pursue resolution through negotiation, mediation, arbitration (if the contract provides for it), or litigation to recover the disputed amount — the contractor may also

file a mechanics' lien against the property if the contract allows and the filing deadline has not passed

B. The contractor has no legal remedy and must accept the reduced payment as final with no recourse

C. The contractor may only recover the disputed amount by reducing the quality of the warranty service

D. The contractor must wait five years before pursuing any legal action for disputed contract payments

20. A contractor is evaluating job cost reports for an ongoing commercial project. The report shows that concrete work is 60% complete but has consumed 75% of the budgeted cost. What does this cost variance indicate?

A. The concrete work is ahead of schedule because the percentage of budget consumed exceeds completion

B. The concrete work is under budget because only 60% of the work has been completed to date

C. The concrete work is over budget — the cost to complete will likely exceed the original budget because the work is consuming cost at a faster rate than it is generating progress, and corrective action is needed

D. Cost variance has no significance for project management and should be disregarded by the contractor

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

21. Under federal tax law, employers must deposit withheld payroll taxes (income tax, Social Security, and Medicare) with the IRS according to a deposit schedule. For most construction contractors, what determines the deposit frequency?

A. All employers deposit payroll taxes annually with their corporate income tax return regardless of amount

B. All employers deposit payroll taxes quarterly with no variation based on the amount of taxes withheld

C. The deposit frequency depends on the number of employees rather than the dollar amount of taxes

D. The deposit frequency (monthly or semiweekly) is determined by the total amount of taxes reported during a lookback period — larger tax liabilities require more frequent deposits

22. A contractor employs 12 workers on a commercial project. Under Alabama's workers' compensation law, the company exceeds the 5employee threshold and must carry workers' compensation insurance. If a worker is injured on the job, what benefits does workers' compensation provide?

A. Workers' compensation provides only a onetime cash payment of \$5,000 regardless of injury severity

B. Workers' compensation provides medical benefits (payment for all reasonable and necessary medical treatment), disability benefits (partial wage replacement during recovery), and rehabilitation services — death benefits are provided to dependents if the injury is fatal

C. Workers' compensation provides only legal representation for the employee to sue the employer

D. Workers' compensation provides only replacement of damaged personal tools with no medical coverage

23. A contractor hires a plumber who works exclusively for the contractor, uses the contractor's tools and materials, works the hours set by the contractor, and receives a weekly paycheck with taxes withheld. The contractor's accountant wants to classify this worker as an independent contractor to reduce payroll costs. Under IRS classification rules, is this classification correct?

A. No, based on the behavioral and financial control factors described — the contractor controls the methods, provides tools, sets the schedule, and pays wages with withholding — this worker meets the IRS criteria for an employee, and classifying the worker as an independent contractor is misclassification

B. Yes, all plumbers are automatically classified as independent contractors regardless of working conditions

C. Yes, because the worker's job title includes the word "contractor," the IRS automatically classifies the worker as an independent contractor

D. The classification depends entirely on the worker's personal preference and selfdesignation on tax forms

24. A contractor must provide each employee with a Form W2 at the end of the calendar year. What information does the W2 report?

- A. The W2 reports only the employee's home address and Social Security number for identity verification
- B. The W2 reports the worker's independent contractor payments and 1099 income for the calendar year
- C. The W2 reports the employee's total wages earned, federal and state income taxes withheld, Social Security and Medicare taxes withheld, and other compensation information for the calendar year — it is used by the employee to file their personal income tax return
- D. The W2 reports only the employer's total payroll expense for the year with no individual employee data

25. Under Alabama law, employers must pay state unemployment insurance (SUTA) taxes on employee wages. The SUTA tax rate varies by employer based on the employer's experience rating (claims history). What factor causes an employer's SUTA tax rate to increase?

- A. Hiring employees with college degrees causes the SUTA rate to increase for all employers
- B. Operating in the construction industry automatically assigns the maximum SUTA rate regardless of claims
- C. Maintaining a clean safety record with no workers' compensation claims increases the SUTA rate
- D. A higher frequency of unemployment claims filed by the employer's former employees causes the SUTA rate to increase because the experience rating reflects the employer's contribution to the unemployment insurance fund

26. A contractor is reviewing the company's insurance portfolio and notices that the umbrella liability policy provides coverage above the limits of the underlying CGL, automobile, and employer's liability policies. Under what circumstances does the umbrella policy respond?

- A. The umbrella policy replaces the underlying policies entirely and provides all coverage from the first dollar

- B. The umbrella policy responds when a claim exceeds the limits of the underlying primary insurance policy — it provides additional coverage above the primary policy limits, increasing the total available coverage for catastrophic claims
- C. The umbrella policy covers only claims for property damage to the contractor's own equipment and tools
- D. The umbrella policy provides coverage only for claims filed by government agencies against the contractor

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

27. Under the Americans with Disabilities Act (ADA), employers with 15 or more employees must provide "reasonable accommodations" to qualified individuals with disabilities. In the construction industry context, what constitutes a reasonable accommodation?

- A. The employer must eliminate all physical requirements of the job regardless of their necessity
- B. The employer must hire the disabled applicant regardless of whether they can perform the essential functions
- C. Reasonable accommodations may include modifying work schedules, providing assistive devices, reassigning to a vacant position, or modifying nonessential job duties — the accommodation must enable the individual to perform the essential functions of the job without imposing undue hardship on the employer
- D. The ADA does not apply to the construction industry because all construction work requires physical labor

28. A contractor terminates an employee and the employee claims wrongful termination. Under Alabama's "atwill" employment doctrine, what is the general rule governing employment termination?

- A. Alabama is an "atwill" employment state, meaning either the employer or the employee may terminate the employment relationship at any time, for any lawful reason, with or without cause or notice — however, terminations that violate antidiscrimination laws, public policy, or contractual agreements are exceptions
- B. Alabama law requires a minimum 30day written notice before any employee may be terminated

C. Employers in Alabama may never terminate employees and must retain all workers until retirement age

D. Alabama's employment laws require "just cause" for every termination with mandatory employer documentation

29. Under the Family and Medical Leave Act (FMLA), eligible employees of covered employers are entitled to unpaid, jobprotected leave for specified family and medical reasons. What is the maximum duration of FMLA leave that an eligible employee may take in a 12month period?

A. 6 weeks of unpaid leave per 12month period for eligible employees of covered employers

B. 30 calendar days of unpaid leave per 12month period for all employees regardless of employer size

C. 6 months of paid leave per 12month period for all employees regardless of employer size

D. 12 weeks of unpaid, jobprotected leave per 12month period for eligible employees of covered employers

30. A contractor is hiring field workers for a commercial construction project. Under federal law, what is the minimum age at which a person may be employed in construction work?

A. There is no minimum age requirement for construction employment under any federal or state law

B. 18 years of age is the minimum for employment in construction occupations that the Secretary of Labor has declared hazardous, including most construction work — 16yearolds may perform limited nonhazardous tasks

C. 14 years of age is the minimum for all construction employment without any restriction on job duties

D. 21 years of age is the minimum for all construction employment including office and administrative roles

31. Under OSHA regulations, a contractor must establish a written safety and health program for the construction project. Which of the following elements must be included in an effective construction safety program?

- A. A hazard identification and assessment process, employee safety training, safety rules and enforcement procedures, accident investigation and reporting protocols, and regular safety inspections of the work site
- B. Only a posted copy of the OSHA "It's the Law" poster with no additional program elements required
- C. Only a first aid kit located in the project superintendent's office with no written program necessary
- D. Only an annual fire drill with no other safety program components required for construction projects

DOMAIN 7: PROJECT MANAGEMENT (Questions 32–34)

32. A contractor is developing a CPM schedule for a commercial building project and identifies that the mechanical roughin activity has 10 days of total float. The project owner demands that the contractor use this float to accommodate an ownercaused delay. Under standard construction practice, who "owns" the float in a CPM schedule?

- A. Float always belongs exclusively to the owner and may be directed for any purpose at any time
- B. Float always belongs exclusively to the contractor and may never be consumed by ownercaused delays
- C. Float ownership depends on the contract language — many contracts specify that float is a shared resource belonging to the project, not exclusively to either party, and is available to either party on a firstcome, firstserved basis
- D. Float has no ownership because it does not exist as a recognized scheduling concept in construction

33. A contractor is tracking project costs and notices that the electrical subcontractor has submitted a change order for \$45,000 claiming that the work required by RFI #23 constitutes additional scope. The contractor must evaluate this claim before forwarding it to the owner. What should the contractor evaluate?

- A. The contractor should approve the change order without review because all subcontractor claims are valid

- B. The contractor should reject the change order without review because subcontractors are never entitled to changes
- C. The contractor has no responsibility to evaluate subcontractor change orders and should forward them unreviewed
- D. The contractor should evaluate whether the RFI response actually changed the scope from what was included in the original contract documents, verify the subcontractor's cost backup, assess whether the claimed amount is reasonable, and determine whether the change entitles the contractor to a change order from the owner

34. A contractor is managing a project where the owner has directed numerous small changes through construction change directives (CCDs) without agreeing to a price for each change. The cumulative effect of these changes has disrupted the contractor's planned work sequence. Under standard contract provisions, what right does the contractor have?

- A. The contractor has no right to additional compensation for the cumulative impact of multiple small changes
- B. The contractor may submit a claim for the cumulative impact (disruption and lost productivity) caused by the aggregate effect of the multiple changes, documenting the specific disruptions and quantifying the resulting cost and time impact
- C. The contractor may stop all work until every CCD is individually priced and approved as a formal change order
- D. The contractor may only claim for the single largest change and must waive all claims for the smaller changes

DOMAIN 8: CONTRACT MANAGEMENT (Questions 35–40)

35. Under Alabama law, what is the "parol evidence rule" and how does it affect the interpretation of a written construction contract?

- A. The parol evidence rule prevents the parties from introducing prior or contemporaneous oral agreements to contradict, modify, or add to the terms of a fully integrated written contract — the written contract is presumed to contain the complete agreement between the parties
- B. The parol evidence rule requires all construction contracts to be reviewed by a parole officer
- C. The parol evidence rule applies only to criminal cases and has no relevance to construction contracts

D. The parol evidence rule requires the contractor to provide evidence of a prior criminal record before signing

36. A contractor signs a construction contract that includes a clause requiring all disputes to be resolved through binding arbitration rather than litigation. Under Alabama law, is this arbitration clause enforceable?

A. Arbitration clauses are never enforceable in Alabama for any type of contract or dispute

B. Arbitration clauses are enforceable only for disputes under \$10,000 in value with no other application

C. Arbitration clauses are enforceable only if the parties agree to arbitration after the dispute arises

D. Binding arbitration clauses in construction contracts are generally enforceable in Alabama under the Federal Arbitration Act and Alabama's arbitration statutes, provided the clause was entered into voluntarily by both parties

37. A project owner terminates the contractor for convenience — not because of any breach or default by the contractor, but because the owner has decided not to proceed with the project. Under standard contract provisions, what compensation is the contractor entitled to receive?

A. The contractor receives nothing because termination for convenience relieves the owner of all payment obligations

B. The contractor is entitled to payment for all work completed to date, costs incurred for materials ordered, demobilization costs, and a reasonable amount for overhead and profit on the work not performed

C. The contractor is entitled only to the return of the original bid bond with no additional compensation

D. The contractor is entitled to the full remaining contract price as if the project had been completed

38. Under Alabama law, a contractor's failure to substantially complete a construction project may constitute a material breach of the contract. What is the legal standard for "substantial completion" under Alabama construction law?

- A. Substantial completion means that 100% of the work is complete with no deficiencies of any kind
- B. Substantial completion requires only that the foundation has been poured regardless of the remaining work
- C. Substantial completion means the project is sufficiently complete for the owner to occupy and use the building for its intended purpose, even though minor punch list items may remain — it is a critical milestone that triggers important contractual consequences
- D. Substantial completion is not recognized under Alabama law and has no legal significance in the state

39. A contractor receives a notice from the project owner claiming that certain completed work does not conform to the contract specifications. The contractor disagrees with the owner's assessment. Under standard contract provisions, what is the first step in the dispute resolution process?

- A. The parties should first attempt to resolve the dispute through direct negotiation — if negotiation fails, the contract typically provides for mediation as the next step, followed by arbitration or litigation as specified in the contract
- B. The contractor must immediately file a lawsuit in circuit court as the required first step for all disputes
- C. The contractor must accept the owner's assessment without challenge because the owner always has final authority
- D. The contractor must contact OSHA to mediate all disputes between the owner and the contractor

40. A construction contract includes a "nodamagefordelay" clause that limits the contractor's remedy for ownercaused delays to a time extension only, with no additional monetary compensation. Under Alabama law, are there exceptions to the enforceability of a nodamagefordelay clause?

- A. Nodamagefordelay clauses are always enforceable without any exceptions under Alabama law
- B. Nodamagefordelay clauses are never enforceable in Alabama under any circumstances or conditions
- C. Nodamagefordelay clauses apply only to federal government contracts and not to private construction

D. Courts may refuse to enforce a nodamagefordelay clause when the delay was caused by the owner's active interference, bad faith, or abandonment of the contract — these extreme circumstances may override the contractual limitation

DOMAIN 9: BUSINESS ORGANIZATION (Questions 41–42)

41. A contractor is comparing the tax implications of operating as an SCorporation versus a CCorporation. Under federal tax law, what is the primary tax difference between these two corporate structures?

A. CCorporations pay lower tax rates than SCorporations on all income without exception

B. An SCorporation is a "passthrough" entity where profits and losses are reported on the shareholders' personal income tax returns, avoiding the double taxation that occurs with a CCorporation — a CCorporation pays corporate income tax on its profits, and shareholders pay personal income tax again when profits are distributed as dividends

C. SCorporations and CCorporations are taxed identically with no difference in tax treatment

D. SCorporations pay no taxes at all while CCorporations pay both corporate and personal income taxes

42. A contractor operates as a sole proprietorship in Alabama. The business has debts totaling \$200,000 that it cannot pay. Under Alabama law, what is the owner's personal liability for these business debts?

A. The owner's personal liability is limited to \$50,000 regardless of the total business debt amount

B. The owner has no personal liability because all sole proprietorships have automatic liability protection

C. The owner's personal liability is limited to the amount of the original business registration fee only

D. The sole proprietor is personally liable for all business debts — there is no legal separation between the owner and the business, meaning the owner's personal assets (home, savings, vehicles) may be seized to satisfy the \$200,000 in business debts

DOMAIN 10: RISK MANAGEMENT (Questions 43–46)

43. A contractor is reviewing the project's insurance requirements and the contract specifies that the contractor must name the owner as an "additional insured" on the contractor's CGL policy. What protection does additional insured status provide to the owner?

- A. Additional insured status provides the owner with direct coverage under the contractor's CGL policy for claims arising from the contractor's work — if a third party is injured by the contractor's operations, the owner can access the contractor's insurance for defense and indemnification
- B. Additional insured status transfers the contractor's entire insurance policy to the owner permanently
- C. Additional insured status provides the owner with workers' compensation coverage for the owner's staff
- D. Additional insured status is a courtesy designation with no legal effect on insurance coverage or claims

44. A contractor is developing a projectspecific safety plan for a commercial construction project. The plan must address the OSHA "Focus Four" hazards that account for the majority of construction fatalities. What are the four hazards included in the OSHA Focus Four?

- A. Noise exposure, heat illness, insect bites, and sunburn from ultraviolet radiation on outdoor projects
- B. Chemical exposure, radiation, biological hazards, and ergonomic injuries from repetitive motions
- C. Falls, struckby incidents, electrocution, and caughtin/between hazards — these four categories account for the majority of construction worker fatalities and are OSHA's highest enforcement priorities
- D. Vehicle accidents, food poisoning, allergic reactions, and slipandfall injuries on level surfaces

45. Under Alabama law, a contractor who causes property damage to an adjacent building during construction operations may be liable for the damage. What type of insurance covers this liability?

- A. Workers' compensation insurance covers property damage claims from adjacent property owners
- B. Builder's risk insurance covers damage to adjacent properties caused by the contractor's operations
- C. Professional liability insurance covers property damage claims from construction operations
- D. Commercial general liability (CGL) insurance covers thirdparty property damage claims arising from the contractor's construction operations, including damage to adjacent properties

46. A contractor's bonding company (surety) evaluates the contractor annually to determine the contractor's aggregate bonding capacity. What factors does the surety consider when establishing the contractor's bonding limit?

- A. The surety considers only the contractor's personal credit score with no other factors evaluated
- B. The surety evaluates the contractor's financial statements (net worth, working capital, cash flow), management experience, project track record, organizational capability, and current backlog to determine the maximum total value of bonded projects the contractor can carry simultaneously
- C. The surety establishes the bonding limit based solely on the number of employees the contractor has
- D. The surety assigns a standard bonding limit of \$1,000,000 to all contractors regardless of qualifications

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

47. Under OSHA's construction safety standards, employers must provide fall protection for workers exposed to fall hazards at specific heights. At what height above a lower level does OSHA require fall protection in general construction activities?

- A. 6 feet above a lower level for general construction activities — fall protection must be provided through guardrails, safety nets, or personal fall arrest systems when workers are exposed to falls of 6 feet or more
- B. 10 feet above a lower level for all construction activities without exception

- C. 15 feet above a lower level, matching the steel erection trigger height for fall protection
- D. 25 feet above a lower level, with no fall protection required below this height under any condition

48. A contractor is required to maintain OSHA injury and illness records for the construction company. What forms must the contractor complete and maintain under OSHA's recordkeeping standard?

- A. Only Form 300A (Summary of WorkRelated Injuries and Illnesses) is required, with no individual logs
- B. Only a handwritten note describing each injury is required with no standardized form or format
- C. OSHA Forms 300 (Log of WorkRelated Injuries and Illnesses), 300A (Annual Summary), and 301 (Injury and Illness Incident Report) must be completed and maintained for each recordable workrelated injury and illness
- D. No injury records of any type are required for construction companies with fewer than 100 employees

49. Under EPA regulations, a contractor performing renovation work on a building constructed before 1978 must comply with the Lead Renovation, Repair, and Painting (RRP) Rule. What does the RRP Rule require?

- A. The RRP Rule requires only that the contractor wear a dust mask during renovation of pre1978 buildings
- B. The RRP Rule applies only to buildings constructed before 1950 and does not cover buildings built between 1950 and 1978
- C. The RRP Rule has been repealed and no longer applies to any renovation work in any building
- D. The RRP Rule requires that firms be EPAcertified, that a certified renovator be assigned to each job, and that leadsafe work practices (containment, dust minimization, proper cleanup, and waste disposal) be followed during renovation of pre1978 housing and childoccupied facilities

50. A contractor is working on a commercial project and generates construction and demolition (C&D) waste including wood scraps, concrete rubble, metal, drywall, and packaging materials. Under Alabama environmental regulations, how must C&D waste be managed?

- A. All C&D waste may be dumped on any vacant lot without restriction or environmental consequence
- B. C&D waste must be disposed of at a permitted C&D landfill or recycling facility in compliance with ADEM regulations — many project specifications also require a minimum percentage of C&D waste to be recycled or diverted from landfill disposal
- C. C&D waste may be burned onsite in an open fire pit as the standard disposal method for all projects
- D. C&D waste management is not regulated by any state or federal agency in Alabama

Practice Exam 2: Answer Key and Explanations

DOMAIN 1: LICENSING REQUIREMENTS (Questions 1–8)

1. B — A contractor's license monetary limitation must equal or exceed the value of any project bid. At \$625,000, the project exceeds the contractor's \$500,000 limit, making the bid invalid. The contractor must obtain a license upgrade before submitting bids on projects exceeding the current monetary limitation.
2. D — An expired license is equivalent to no license at all. A contractor who continues working after expiration faces the same penalties as an unlicensed contractor — fines up to \$6,000, imprisonment up to one year, and unenforceability of any contracts entered into during the period of nonlicensure.
3. A — When a partnership applies for licensure, at least one partner must serve as the qualifying party whose experience and competence qualify the entity for the license. The license is issued to the partnership entity, not to the individual, and the qualifying party must be identified on the license application.
4. C — Changes to the qualifying party, business structure, company name, or business address must be reported to the Licensing Board because these changes affect the validity and accuracy of the license record. Failure to report material changes may result in disciplinary action or invalidation of the license.
5. B — Alabama requires applicants to document at least three completed construction projects within the past three years, demonstrating hands-on experience in the type of work for which licensure is sought. Additionally, three personal references who can attest to the applicant's experience and character must be submitted.

6. D — The Licensing Board has broad disciplinary authority including the power to revoke, suspend, or refuse to renew a license, impose monetary fines, and place conditions or restrictions on the license. The specific action depends on the nature and severity of the violation and any prior disciplinary history.

7. A — The NASCLA trade examination is administered through the National Examination Database (NED) portal. Candidates register online, select an approved testing center, and schedule the computerbased examination. The NED system manages registration, scheduling, and score reporting for the NASCLA exam program.

8. C — Subcontractors performing work valued above the \$50,000 licensing threshold must hold the appropriate license classification. The licensing requirement applies to any entity performing construction work above the threshold, regardless of whether they are a general contractor or a specialty subcontractor.

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

9. D — The project superintendent's salary is a general conditions (project overhead) cost because it is a time-dependent indirect expense associated with managing the project, not a direct cost of any specific trade or material installation. Other general conditions items include temporary facilities, temporary utilities, site cleanup, and project insurance.

10. A — Failure to acknowledge all addenda is a material bid deficiency that renders the bid nonresponsive. Addenda modify the contract documents, and a bidder who has not acknowledged an addendum may not have priced the changed work. The owner may reject the nonresponsive bid and award to the next lowest responsive, responsible bidder.

11. C — Gross margin is the percentage of revenue remaining after deducting all direct construction costs — labor, materials, equipment, and subcontractor expenses. It represents the amount available to cover the contractor's overhead (both project and home office) and profit. A typical construction gross margin ranges from 5% to 15%.

12. A — A bid significantly below competing quotes may indicate a scope exclusion, mathematical error, or unsustainable pricing. The estimator should contact the low bidder to verify the scope, check for errors, and confirm intent to honor the price. Incorporating an erroneous low bid creates a cost gap the general contractor must absorb.

13. D — Alabama's Competitive Bid Law requires competitive bidding for public construction projects exceeding \$50,000. This threshold matches the contractor licensing threshold. Projects above this amount must be publicly advertised, competitively bid, and awarded to the lowest responsive, responsible bidder.

DOMAIN 3: LIEN LAWS (Questions 14–15)

14. B — Unlike the general contractor who has a direct contract with the owner, subcontractors and material suppliers (remote claimants) must provide a preliminary notice to the property owner informing them that the claimant is furnishing labor or materials and intends to look to the property for payment. This notice preserves the remote claimant's lien rights.

15. A — After filing a mechanics' lien in Alabama, the lien claimant must file a lawsuit to enforce the lien within 6 months. Failure to file suit within this period extinguishes the lien permanently. The lawsuit seeks a court order to foreclose on the lien and force a sale of the property to satisfy the debt.

DOMAIN 4: FINANCIAL MANAGEMENT (Questions 16–20)

16. C — Net profit equals total revenue minus total expenses: $\$3,000,000 - \$2,850,000 = \$150,000$. This bottomline figure represents the company's earnings after all costs — direct construction costs, overhead, interest, and taxes — have been deducted. Net profit is the ultimate measure of the company's financial performance.

17. D — A cash flow projection forecasts the timing and amount of all money coming in (owner payments) and going out (payroll, material purchases, subcontractor payments) over the project duration. This tool identifies periods when expenditures exceed income, allowing the contractor to arrange financing (line of credit) to bridge the gap.

18. B — Current assets are cash (\$50,000) + accounts receivable (\$200,000) + inventory (\$30,000) = \$280,000. Current liabilities are accounts payable (\$150,000). The current ratio is $\$280,000 \div \$150,000 = 1.87$. A ratio above 1.0 indicates the company can meet its shortterm obligations. Lenders typically prefer a current ratio of 1.5 or higher.

19. A — The contractor may pursue negotiation, mediation, arbitration (if contractually required), or litigation to recover disputed amounts. Additionally, the contractor may file a mechanics' lien against the property if the filing deadline has not passed and the contract permits it. Multiple remedies may be pursued simultaneously.

20. C — When 75% of the budget has been consumed but only 60% of the work is complete, the concrete work is trending over budget. At the current burn rate, the final cost will exceed the budget by approximately 25%. The contractor must investigate the cause (labor inefficiency, material waste, scope creep) and implement corrective measures.

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

21. D — The IRS assigns employers to either a monthly or semiweekly deposit schedule based on the total taxes reported during a designated lookback period. Larger tax liabilities require more frequent deposits (semiweekly), while smaller liabilities may be deposited monthly. Late deposits trigger penalties and interest.

22. B — Alabama workers' compensation provides three primary categories of benefits: medical benefits covering all reasonable and necessary medical treatment, disability benefits providing partial wage replacement during recovery (temporary total, temporary partial, permanent partial, permanent total), and rehabilitation services. Death benefits are provided to dependents of fatally injured workers.

23. A — The IRS evaluates the degree of behavioral control (how the work is performed), financial control (business aspects of the work), and the type of relationship (contracts, benefits, permanency). This worker is clearly an employee — the contractor controls methods, provides tools, sets hours, and withholds taxes. Misclassification triggers back taxes, penalties, and interest.

24. C — Form W2 reports the employee's total wages, tips, and other compensation earned during the calendar year, along with all federal, state, and local income taxes withheld, Social Security and Medicare taxes withheld, and other deductions. The employee uses this information to prepare their personal income tax return.

25. D — The SUTA tax rate is experience-rated, meaning it adjusts based on the employer's claims history. When former employees file unemployment claims, the employer's experience rating worsens, causing the SUTA rate to increase. Employers who maintain stable employment and have fewer claims receive lower rates.

26. B — The umbrella liability policy provides additional coverage above the limits of the underlying primary policies (CGL, auto liability, employer's liability). When a claim exceeds the primary policy limit, the umbrella responds to cover the excess amount. This additional layer of protection is essential for catastrophic claims that exceed standard policy limits.

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

27. C — Reasonable accommodations under the ADA may include modifying work schedules, providing assistive equipment, reassigning to a vacant position, modifying nonessential duties, or making the workplace physically accessible. The accommodation must enable the qualified individual to perform the essential job functions without imposing undue hardship on the employer.

28. A — Alabama follows the "atwill" employment doctrine, meaning either party may end the relationship at any time for any lawful reason. However, important exceptions exist: terminations based on protected characteristics (race, sex, religion, disability, age), retaliation for whistleblowing, or violation of a written employment contract are not lawful.

29. D — The FMLA provides eligible employees up to 12 weeks of unpaid, job-protected leave per 12-month period for qualifying reasons including birth or adoption of a child, serious health condition of the employee, or serious health condition of an immediate family member. The employer must maintain the employee's health insurance during FMLA leave.

30. B — Federal law (Fair Labor Standards Act) prohibits minors under 18 from working in occupations the Secretary of Labor has declared hazardous, which includes most construction work. Sixteen and seventeen-year-olds may perform certain limited nonhazardous construction tasks. No minor under 16 may work in construction.

31. A — An effective construction safety program includes hazard identification and assessment, employee training on identified hazards and safe work practices, written safety rules with consistent enforcement, accident investigation and reporting procedures, regular site safety inspections, and emergency response planning. The program must be documented and communicated to all workers.

DOMAIN 7: PROJECT MANAGEMENT (Questions 32–34)

32. C — Float ownership depends on the contract language. Many modern construction contracts specify that float is a shared project resource available to whichever party needs it first, rather than belonging exclusively to the owner or contractor. Some contracts explicitly state that float belongs to the project, not to any individual party.

33. D — The contractor must evaluate the subcontractor's change order by comparing the RFI response against the original contract documents to determine whether the scope actually changed, reviewing the subcontractor's cost backup for accuracy and reasonableness, and determining whether the change entitles the contractor to a corresponding change order from the owner.

34. B — The contractor may submit a claim for cumulative impact (disruption) caused by the aggregate effect of multiple changes. Even when individual changes are minor, their combined effect can disrupt the planned work sequence, reduce productivity, and increase costs beyond the sum of the individual change amounts. The claim must be documented with specific evidence of disruption.

DOMAIN 8: CONTRACT MANAGEMENT (Questions 35–40)

35. A — The parol evidence rule prevents parties from introducing prior or contemporaneous oral agreements to contradict or modify a fully integrated written contract. Once the parties have committed their agreement to a comprehensive written document, that document is presumed to contain the complete and final agreement. This rule protects the integrity of written contracts.

36. D — Binding arbitration clauses in construction contracts are generally enforceable in Alabama under the Federal Arbitration Act and Alabama's arbitration statutes. The clause must have been entered into voluntarily. Arbitration provides a faster, less formal, and typically less expensive alternative to litigation for resolving construction disputes.

37. B — When an owner terminates for convenience, the contractor is entitled to compensation for all work completed, costs incurred for materials ordered, demobilization costs, and a reasonable amount for overhead and profit on the unperformed work. The contractor does not receive the full remaining contract price — only fair compensation for the termination's impact.

38. C — Substantial completion means the project is sufficiently complete for the owner to occupy and use the building for its intended purpose, even though minor punch list items remain. This milestone triggers critical contractual consequences: the start of the warranty period, the owner's assumption of maintenance responsibility, and the contractor's right to the contract balance less retainage.

39. A — The standard dispute resolution process begins with direct negotiation between the parties. If negotiation fails, most contracts provide for mediation as the next step — a facilitated negotiation with a neutral third party. If mediation fails, the dispute proceeds to binding arbitration or litigation as specified in the contract.

40. D — While no damage for delay clauses are generally enforceable in Alabama, courts recognize exceptions for extreme owner misconduct. If the delay was caused by the owner's active interference, bad faith, fraud, or abandonment of the contract, courts may refuse to enforce the clause and allow the contractor to recover delay damages.

DOMAIN 9: BUSINESS ORGANIZATION (Questions 41–42)

41. B — An S Corporation is a passthrough entity — profits and losses flow through to the shareholders' personal income tax returns, and the corporation itself pays no federal income

tax. A CCorporation pays corporate income tax on profits, and shareholders pay personal income tax again when those profits are distributed as dividends, creating double taxation.

42. D — A sole proprietor has unlimited personal liability for all business debts. There is no legal separation between the owner and the business — they are legally the same entity. The owner's personal assets including home, savings, vehicles, and other property may be seized by creditors to satisfy the business's \$200,000 in debts.

DOMAIN 10: RISK MANAGEMENT (Questions 43–46)

43. A — Additional insured status provides the owner with direct coverage under the contractor's CGL policy for thirdparty claims arising from the contractor's work. If someone is injured by the contractor's operations and sues the owner, the owner can access the contractor's insurance for both defense costs and indemnification, without relying solely on the owner's own policy.

44. C — The OSHA Focus Four hazards are falls, struckby incidents, electrocution, and caughtin/between hazards. These four categories account for approximately 60% of all construction worker fatalities annually. OSHA prioritizes enforcement of standards addressing these hazards because eliminating them would prevent the majority of construction deaths.

45. D — Commercial general liability insurance covers thirdparty property damage claims arising from the contractor's construction operations. If the contractor's excavation, vibration, dewatering, or other activities damage an adjacent building, the CGL policy responds to the property damage claim from the adjacent property owner.

46. B — The surety evaluates multiple factors when establishing bonding capacity: financial strength (net worth, working capital, cash flow), management experience and capability, project track record (completed projects, references), organizational depth, and current backlog (work already under contract). These factors collectively determine the surety's confidence in the contractor's ability to perform.

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

47. A — OSHA requires fall protection at 6 feet above a lower level for general construction activities. The three primary fall protection methods are guardrail systems (42inch top rail), safety net systems, and personal fall arrest systems (harness, lanyard, anchorage). Falls are the leading cause of death in construction, accounting for approximately onethird of all construction fatalities.

48. C — OSHA's recordkeeping standard requires three forms: Form 300 (Log of WorkRelated Injuries and Illnesses) documents each recordable incident, Form 300A (Annual Summary) summarizes the year's incidents and must be posted from February 1 through April 30, and Form 301 (Incident Report) provides detailed information about each individual incident.

49. D — The EPA's Lead RRP Rule requires firms performing renovation in pre1978 housing and childoccupied facilities to be EPACertified, assign a certified renovator to each job, and follow specific leadsafe work practices including containment of the work area, minimization of dust, HEPA vacuum cleanup, and proper disposal of leadcontaminated waste.

50. B — Construction and demolition waste must be disposed of at a permitted C&D landfill or recycling facility in compliance with ADEM regulations. Open burning and illegal dumping are prohibited. Many specifications and green building programs require contractors to divert a minimum percentage of C&D waste from landfill through recycling and salvage.