

PRACTICE EXAM 3: 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 homeowner hires a handyman to remodel a kitchen and two bathrooms in a singlefamily residence. The total cost of the project including labor and materials is \$48,000. Under Alabama licensing law, does the handyman need a general contractor's license to perform this work?

A. Yes, because all residential remodeling work requires a contractor's license regardless of cost

B. Yes, because the project involves plumbing modifications that always require a licensed general contractor

C. No, but only if the homeowner signs a written waiver releasing the handyman from licensing requirements

D. No, because the total project cost of \$48,000 is below the \$50,000 licensing threshold — however, if the scope increases and the total exceeds \$50,000, a license would be required

2. A licensed Alabama contractor is found guilty of diverting funds from one construction project to pay expenses on a different project, leaving the first project's subcontractors unpaid. Under Alabama licensing law, what term describes this practice and what consequence may result?

A. This practice is called "bid shopping" and results in a mandatory 30day license suspension

B. This practice is called "fund diversion" and may result in disciplinary action by the Licensing Board including license revocation, as diverting project funds is a serious violation of the contractor's fiduciary obligations

C. This practice is legal as long as both projects are completed within the original contract timelines

D. This practice is called "crossfunding" and is a standard, accepted cash management technique

3. Under Alabama law, the Licensing Board for General Contractors consists of members appointed to oversee the licensing and regulation of contractors in the state. Who appoints the members of the Board?

A. The Governor of Alabama appoints the members of the Licensing Board for General Contractors

B. The members are elected by a popular vote of all licensed contractors in the state of Alabama

C. The Alabama Supreme Court appoints the Board members from a list of retired state court judges

D. The Board members are selfappointed through an internal nomination and selection process

4. A contractor's license application in Alabama requires completion of the PSIadministered Business and Law examination in addition to the NASCLA trade examination. What subjects does the Business and Law examination cover?

A. Only construction safety regulations and OSHA standards for the construction industry

B. Only Alabama tax law and federal income tax preparation procedures for construction businesses

C. Alabama licensing law, business management, contract law, lien law, estimating, financial management, insurance, safety, and employment law — covering the full range of topics needed to operate a construction business in Alabama

D. Only building code requirements and structural engineering principles for commercial construction

5. A licensed contractor in Alabama assigns the company's license to a newly formed subsidiary company so the subsidiary can bid on projects without obtaining its own license. Under Alabama law, is this assignment valid?

A. Yes, licenses may be freely transferred between related companies under the same ownership

B. Yes, as long as the subsidiary pays a \$100 transfer fee to the Licensing Board within 30 days

C. Yes, licenses are transferable between any two entities that share at least one common employee

D. No, Alabama contractor licenses are not transferable or assignable — each business entity must apply for and obtain its own license based on its own qualifications, financial standing, and qualifying party

6. Under Alabama law, a contractor who submits false information on a license application or renewal may face consequences beyond simple rejection of the application. What additional action may the Board take?

A. The Board may only send a letter requesting the contractor to correct the false information within 60 days

B. The Board may deny, suspend, or revoke the license and may refer the matter for criminal prosecution for fraud — submitting false information on a state licensing application is a serious offense

C. The Board may only require the contractor to retake the licensing examinations with no other penalty

D. False information on an application has no consequence as long as the contractor corrects it before renewal

7. A military veteran with extensive construction experience gained during military service applies for an Alabama contractor's license. Under recent Alabama legislation regarding military experience, how is the veteran's military construction experience treated?

A. Alabama law requires the Licensing Board to consider relevant military training and experience when evaluating a veteran's application, potentially crediting military construction experience toward the experience requirements for licensure

- B. Military construction experience is never recognized in Alabama and the veteran must start over
- C. Veterans are automatically granted a license without examination based solely on military service
- D. Military experience counts only if the veteran served in a combat engineering unit during active deployment

8. Under Alabama licensing regulations, what is the consequence if the qualifying party for a licensed company leaves the company or is otherwise disqualified?

- A. The company's license remains fully valid indefinitely regardless of the qualifying party's status
- B. The company automatically receives a new qualifying party from the Licensing Board's approved list
- C. The company must designate a new qualifying party within a specified timeframe or the license becomes inactive — the company may not bid on or enter into new contracts until a replacement qualifying party is approved by the Board
- D. The company must immediately cease all operations including work on existing contracts in progress

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

9. A contractor is preparing a bid for a public school construction project in Alabama. The specifications require both a performance bond and a payment bond. Under Alabama law for public projects, what is the required amount for each bond?

- A. 25% of the contract price for the performance bond and 10% for the payment bond
- B. Both the performance bond and the payment bond must each be in the amount of 100% of the contract price for public construction projects in Alabama
- C. 50% of the contract price for both bonds combined with no individual bond requirement specified
- D. Bonds are not required on public school projects in Alabama regardless of the contract value

10. A contractor's estimator is calculating the "labor productivity factor" for concrete formwork installation. The estimator's database shows that formwork crews in the company typically install 250 square feet of wall formwork per 8hour day. A project requires 10,000 square feet of formwork. How many labor days does the estimator need to budget for this work item?

A. 25 labor days ($5,000 \text{ SF} \div 200 \text{ SF/day}$) using a reduced productivity rate for conservative estimating

B. 80 labor days ($10,000 \text{ SF} \div 125 \text{ SF/day}$) using a halved productivity rate for worstcase conditions

C. 10 labor days ($10,000 \text{ SF} \div 1,000 \text{ SF/day}$) using an accelerated productivity rate for bestcase conditions

D. 40 labor days ($10,000 \text{ SF} \div 250 \text{ SF/day}$) based on the company's historical productivity data

11. A contractor is reviewing a project's bid documents and discovers an ambiguity in the specifications — the architectural specifications call for ceramic tile in the restrooms, but the interior finish schedule shows vinyl composition tile (VCT) in the same locations. Under standard bidding practice, what should the contractor do?

A. The contractor should submit a prebid request for information (RFI) or question to the architect seeking clarification before the bid deadline, rather than assuming which material to price

B. The contractor should price whichever material is less expensive and pocket the difference if the more expensive material is required

C. The contractor should ignore both specifications and substitute a third material of the contractor's choosing

D. The contractor should price both materials and add both costs to the bid for maximum profit

12. A contractor is preparing a unit price bid for a site work project. The bid form includes an item for "unclassified excavation" at an estimated quantity of 5,000 cubic yards. The contractor prices this item at \$15.00 per cubic yard. If the actual excavation quantity turns out to be 6,500 cubic yards, how is the contractor compensated?

A. The contractor is paid the original estimated total (\$75,000) regardless of the actual quantity installed

B. The contractor must renegotiate the unit price before performing any work exceeding the estimated quantity

- C. The contractor is paid for the actual quantity at the agreed unit price: $6,500 \text{ CY} \times \$15.00 = \$97,500$
- D. The contractor is paid only for the first 5,000 cubic yards and must absorb the cost of the additional 1,500

13. Under Alabama's Competitive Bid Law, a public entity must advertise a construction project for competitive bids. What is the minimum advertising requirement for public construction projects in Alabama?

- A. No advertising is required — the public entity may invite bids from a selected list of contractors only
- B. The project must be advertised in a newspaper of general circulation in the county where the work will be performed for a minimum number of days before the bid opening to ensure adequate public notice
- C. The project must be advertised only on the public entity's website with no newspaper requirement
- D. The project must be advertised only through direct mail to all licensed contractors in the state

DOMAIN 3: LIEN LAWS (Questions 14–15)

14. Under Alabama's mechanics' lien law, the lien attaches to the property where the improvement was made. If the property owner sells the property after a mechanics' lien has been properly filed, does the lien survive the sale?

- A. The lien is automatically extinguished when the property is sold to a new owner under all circumstances
- B. The lien survives the sale only if the new owner agrees in writing to assume the lien obligation
- C. The lien is converted to a personal judgment against the original owner upon the sale of the property
- D. A properly filed mechanics' lien runs with the property and survives a transfer of ownership — the new owner takes the property subject to the existing lien, which is why title searches are performed before property purchases

15. A material supplier delivers \$30,000 worth of lumber to a commercial construction project but is not paid by the general contractor. The supplier wants to file a mechanics' lien against the property. Under Alabama law, what must the supplier do to preserve the right to file a lien?

A. The material supplier must have provided a preliminary notice to the property owner within the timeframe required by Alabama law for remote claimants (those not in direct contract with the owner) to preserve lien rights

B. The supplier may file a lien at any time without any prior notice to anyone for any amount

C. The supplier must first obtain a court order before delivering any materials to a construction project

D. Material suppliers have no lien rights under Alabama law — only contractors and subcontractors may file

DOMAIN 4: FINANCIAL MANAGEMENT (Questions 16–20)

16. A contractor is evaluating the financial health of the company by analyzing the debttoequity ratio. The company's balance sheet shows total liabilities of \$400,000 and total owner's equity (net worth) of \$200,000. What is the debttoequity ratio, and what does it indicate?

A. The debttoequity ratio is 0.5, indicating the company has twice as much equity as debt

B. The debttoequity ratio is 3.0, indicating the company's debt is three times its equity balance

C. The debttoequity ratio cannot be calculated without knowing the company's annual revenue

D. The debttoequity ratio is 2.0 ($\$400,000 \div \$200,000$), indicating the company has twice as much debt as equity — a higher ratio indicates greater financial leverage and higher risk, which may concern sureties and lenders

17. A contractor completes a project and the final cost is \$420,000 against an original estimated cost of \$400,000. The contract price was \$450,000. What is the contractor's actual gross profit on this project?

A. \$50,000 gross profit ($\$450,000$ contract price minus $\$400,000$ original estimated cost)

B. \$400,000 because gross profit always equals the total estimated cost of the project

C. \$30,000 gross profit ($\$450,000$ contract price minus $\$420,000$ actual cost) — this is the actual gross profit based on what the project actually cost to build, not the original estimate

D. \$420,000 because gross profit equals the total actual cost of all construction operations

18. A contractor's accountant recommends maintaining a separate "operating account" and a separate "trust account" (escrow account) for client funds. Under best financial management practices, why is this separation important?

A. Separating funds prevents the commingling of the contractor's operating money with funds held in trust for subcontractors, suppliers, and projectspecific expenses — commingling can constitute fund diversion, which is a violation of Alabama licensing law and may result in disciplinary action

B. Separate accounts are required only for international construction projects and not domestic work

C. The separation is only for accounting convenience and has no legal significance under any law

D. Only banks located outside of Alabama require separate operating and trust accounts for contractors

19. A contractor is reviewing the company's accounts receivable aging report and notices that several invoices are more than 90 days past due. What financial risk does aging accounts receivable present to the contractor?

A. Aging receivables have no financial risk because all invoices are eventually paid regardless of age

B. Aging receivables increase the company's net worth because they are classified as longterm assets

C. Aging receivables improve cash flow because they reduce the amount of cash the company must manage

D. Aging accounts receivable increase the risk of noncollection — the longer an invoice remains unpaid, the less likely it is to be collected, which reduces the company's available cash, increases borrowing needs, and may require a writeoff that reduces profitability

20. A contractor's job cost report shows the following for the electrical subcontract: committed cost (subcontract value) \$350,000, billed to date \$200,000, paid to date \$175,000, and

estimated cost to complete \$150,000. What is the projected final cost of the electrical subcontract?

- A. \$200,000 because the projected final cost equals the amount billed to date only
- B. The projected final cost is \$350,000 (the original committed subcontract value) assuming no change orders — the committed cost represents the total contractual obligation to the electrical subcontractor
- C. \$175,000 because the projected final cost equals the amount paid to date only
- D. \$500,000 because the projected cost equals the committed cost plus the estimated cost to complete

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

21. Under federal tax law, the employer's share of Medicare tax (FICA — Hospital Insurance) is a matching contribution with no annual wage base limit. What is the employer's Medicare tax rate?

- A. 6.2% of all employee wages with no annual wage base limit for the employer's contribution
- B. 3.0% of the first \$50,000 in employee wages per calendar year for the employer's share
- C. 1.45% of all employee wages with no annual wage base limit — the employer matches the employee's 1.45% contribution for a combined rate of 2.9%
- D. 0.6% of the first \$7,000 in employee wages per year, matching the FUTA rate exactly

22. A contractor is classifying jobs for workers' compensation insurance premium calculation. The insurance company assigns different classification codes to different types of work based on the risk level. Which type of construction work typically carries the highest workers' compensation rate?

- A. Structural steel erection and roofing typically carry the highest workers' compensation rates because these activities involve the greatest risk of serious injury or death from falls, struckby incidents, and other hazards
- B. Office clerical work at the contractor's home office carries the highest rate because of repetitive stress injuries

- C. Landscaping and site cleanup carry the highest rate because of insect bites and sun exposure risks
- D. All construction activities carry the same workers' compensation rate regardless of risk level or trade

23. A contractor's employee is injured on the job and receives workers' compensation benefits. The employee later discovers that a defective piece of equipment manufactured by a third party caused the injury. Under Alabama law, may the employee pursue a separate lawsuit against the equipment manufacturer?

- A. No, workers' compensation is the exclusive remedy for all workrelated injuries without any exception
- B. No, the employee must choose between workers' compensation and a lawsuit and cannot pursue both
- C. Yes, but only if the employer consents in writing to the employee filing a separate lawsuit
- D. Yes, while workers' compensation is the exclusive remedy against the employer, the employee may file a separate thirdparty lawsuit against the equipment manufacturer for product liability — workers' compensation does not bar claims against negligent third parties

24. A contractor is reviewing the company's commercial general liability (CGL) insurance policy and notices a "completed operations" coverage section. What does the completed operations coverage protect against?

- A. Completed operations covers only theft of the contractor's equipment from the completed job site
- B. Completed operations provides coverage for bodily injury or property damage claims that arise from the contractor's completed work after the project is finished and turned over to the owner — for example, a ceiling that collapses months after completion due to a construction defect
- C. Completed operations covers only the cost of replacing defective materials identified during the warranty period
- D. Completed operations provides coverage for employee injuries that occur during the warranty walkthrough

25. Under Alabama law, a contractor who fails to carry the required workers' compensation insurance when employing five or more workers faces penalties. What are the potential consequences of operating without required workers' compensation coverage?

A. A written warning from the Department of Labor with no financial penalty for the first offense

B. A \$50 fine per day that the contractor operates without coverage until insurance is obtained

C. The contractor faces fines, potential criminal penalties, and personal liability for all medical expenses and lost wages of any employee injured while the required coverage is not in effect — the corporate shield may be pierced to reach the owner personally

D. No consequences because workers' compensation enforcement is voluntary in Alabama

26. A contractor purchases a builder's risk insurance policy for a commercial construction project. The policy has a \$10,000 deductible. During construction, a fire causes \$150,000 in damage to the work in progress. How much does the insurance company pay?

A. \$140,000, calculated as the total loss (\$150,000) minus the deductible (\$10,000) — the contractor (or the insured party) pays the first \$10,000 of the loss and the insurance company pays the remainder up to the policy limit

B. \$150,000 because the insurance company pays the full amount with no deduction for the deductible

C. \$10,000 because the insurance company pays only the deductible amount on every claim

D. \$0 because builder's risk insurance does not cover fire damage to buildings under construction

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

27. Under the Age Discrimination in Employment Act (ADEA), employers with 20 or more employees are prohibited from discriminating against employees and job applicants based on age. What age group is protected by the ADEA?

A. All employees regardless of age are protected equally under the ADEA without any age threshold

B. Individuals who are 40 years of age or older are protected from agebased employment discrimination under the ADEA

C. Only employees between the ages of 18 and 30 are protected from age discrimination in hiring

D. Only employees who have reached the mandatory retirement age of 70 are protected under the ADEA

28. A contractor's foreman instructs a new employee to operate a piece of heavy equipment. The employee has never operated this type of equipment and has received no training. The employee is injured while attempting to operate the machine. Under OSHA regulations, what training violation has occurred?

A. No violation has occurred because onthejob training by observing experienced operators is sufficient

B. No violation has occurred because employees are responsible for their own safety training in construction

C. The violation is minor because the employee should have refused to operate equipment without training

D. The contractor has violated OSHA's training requirements — employers must ensure that each employee who operates equipment is trained and competent in its safe operation before being assigned to the task, and the foreman should never have directed an untrained worker to operate the equipment

29. Under the National Labor Relations Act (NLRA), construction workers have the right to organize and join labor unions. If a contractor's employees vote to form a union, what obligation does the contractor have under the NLRA?

A. The contractor must bargain in good faith with the union as the employees' designated representative regarding wages, hours, and working conditions — refusing to bargain in good faith constitutes an unfair labor practice

B. The contractor may immediately terminate all employees who voted in favor of forming the union

C. The contractor has no obligation to recognize or negotiate with the union under any circumstances

D. The contractor must close the business permanently if employees vote to form a union in Alabama

30. A contractor hires a worker and classifies the worker as an independent contractor. The IRS audits the contractor and reclassifies the worker as an employee. What financial consequences does the contractor face from this reclassification?

A. No financial consequence because the IRS reclassification is advisory only with no monetary impact

B. The contractor receives a tax refund for the overpayment of independent contractor fees

C. The contractor must pay back wages, overtime, and benefits retroactively but owes no additional taxes

D. The contractor may be liable for back employment taxes (Social Security, Medicare, income tax withholding), penalties, and interest on the unpaid taxes for the entire period of misclassification

31. Under OSHA's construction safety standards, employers must provide personal protective equipment (PPE) to employees at no cost. Which of the following items is the employer required to provide?

A. The employee's personal work boots conforming to the contractor's dress code for the construction site

B. Hard hats, safety glasses, hearing protection, and other PPE required by OSHA standards for the specific hazards present — the employer must assess the workplace, determine what PPE is needed, and provide it at no cost to employees

C. The employee's personal clothing including shirts, pants, and undergarments worn beneath the PPE

D. The employee's personal vehicle used for commuting to and from the construction site each day

DOMAIN 7: PROJECT MANAGEMENT (Questions 32–34)

32. A contractor is managing a commercial construction project and the project schedule shows a delay of 15 working days caused by an unusually severe hurricane that shut down all

construction in the area for three weeks. Under standard contract provisions, what type of delay is this, and what is the contractor's entitlement?

- A. This is a nonexcusable delay caused by the contractor's poor planning with no schedule relief available
- B. This is a compensable delay and the contractor is entitled to both a time extension and additional money
- C. This delay has no contractual significance and the contractor must absorb the lost time completely
- D. This is an excusable, noncompensable delay (force majeure/act of God) — the contractor is typically entitled to a time extension but not additional monetary compensation because neither party caused the delay

33. A contractor is using the "schedule of values" to prepare monthly progress payment applications. The schedule of values for the concrete trade shows a total value of \$200,000. The contractor bills 50% complete (\$100,000) on this line item. The architect reviews the billing and determines that the concrete work is actually only 35% complete. Under standard contract provisions, what should the architect do?

- A. The architect must approve the contractor's billing as submitted because the contractor's assessment governs
- B. The architect should certify payment for the full \$100,000 to maintain a good relationship with the contractor
- C. The architect has no authority to adjust the contractor's billing under any standard construction contract
- D. The architect should reduce the certified amount to 35% (\$70,000) and communicate the reason to the contractor — the architect has the responsibility to verify that progress billings accurately reflect the actual work completed

34. A contractor is managing a multistory commercial building project and must coordinate the work of 20 subcontractors. Two subcontractors are in a dispute about who is responsible for installing fire caulking at MEP penetrations through fire-rated walls. Under standard construction practice, who must resolve this scope gap?

- A. The building inspector must assign the work to one of the subcontractors based on the inspection schedule
- B. The architect must perform the fire caulking work because it falls between the subcontractors' scopes
- C. The dispute will resolve itself over time and the contractor should wait until the end of the project
- D. The general contractor must resolve the scope gap — as the coordinator of all subcontractor work, the GC must determine which subcontract covers the fire caulking, assign the work, or perform it directly and allocate the cost

DOMAIN 8: CONTRACT MANAGEMENT (Questions 35–40)

35. Under Alabama contract law, a party to a construction contract may be excused from performance due to "impossibility" or "impracticability." Under what circumstances might a court excuse performance based on impossibility?

- A. Any inconvenience or cost increase automatically constitutes impossibility and excuses contract performance
- B. Impossibility may excuse performance when an unforeseen event beyond either party's control makes performance physically or legally impossible — such as government-ordered project suspension, destruction of the subject matter, or enactment of a law prohibiting the contracted work
- C. Impossibility applies only when the contractor simply decides the project is too difficult to complete
- D. The doctrine of impossibility has been abolished in Alabama and is no longer recognized by the courts

36. A subcontractor completes \$50,000 worth of electrical work on a commercial project but the general contractor refuses to pay, claiming the owner has not yet paid the GC. The subcontract contains a "paywhenpaid" clause. Under Alabama law, how does this clause affect the subcontractor's right to payment?

- A. The subcontractor must wait indefinitely and has no legal remedy until the owner pays the GC
- B. The paywhenpaid clause eliminates all payment obligations and the subcontractor volunteers the work

C. The subcontractor has no legal rights under any Alabama law once the paywhenpaid clause is signed

D. A paywhenpaid clause typically establishes a reasonable timing mechanism for payment rather than an absolute condition precedent — if the owner's payment is delayed beyond a reasonable time, the GC generally must still pay the subcontractor

37. A construction contract includes an indemnification clause requiring the contractor to "indemnify, defend, and hold harmless" the owner from claims arising from the contractor's negligence. Under Alabama law, are "broad form" indemnification clauses (requiring the contractor to indemnify the owner even for the owner's own negligence) enforceable?

A. Broad form indemnification clauses are always enforceable without limitation in Alabama

B. Broad form indemnification is prohibited in Alabama because the owner cannot be indemnified for the owner's own negligence

C. Alabama's antiindemnity statute prohibits construction contract provisions that require one party to indemnify another for the indemnitee's own negligence — the contractor may only be required to indemnify the owner for claims arising from the contractor's own negligence, not the owner's

D. Indemnification clauses are not recognized under Alabama law and have no legal effect in any form

38. Under Alabama law, what is the statute of limitations for bringing a breach of contract claim related to a written construction contract?

A. Six years from the date of the breach for written contract claims in Alabama — the statute of limitations establishes the maximum time within which a lawsuit must be filed after the breach occurs

B. One year from the date of the breach for all written contract claims without exception

C. 30 days from the date of the breach with no extensions permitted under any circumstances

D. There is no statute of limitations for construction contract claims in Alabama — lawsuits may be filed at any time

39. A contractor is reviewing a proposed subcontract and notices a clause requiring the subcontractor to waive all mechanics' lien rights as a condition of the subcontract. Under Alabama law, is this prelien waiver enforceable?

- A. Prelien waivers are always enforceable in Alabama and the subcontractor cannot challenge them
- B. Prelien waivers are enforceable only on federal government projects in Alabama
- C. Prelien waivers have no legal significance and may be freely disregarded by the subcontractor
- D. The enforceability of prelien waivers varies — Alabama courts generally disfavor advance waivers of mechanics' lien rights, and such waivers may not be enforceable if they are unconscionable or contrary to public policy

40. A project owner and contractor disagree about whether certain work constitutes a change to the original contract scope or was included in the original contract documents. The architect reviews the documents and issues an interpretation stating that the work was included in the original scope. Under AIA A201, what is the contractor's option if the contractor disagrees with the architect's interpretation?

- A. The contractor must accept the architect's interpretation as final with no right to challenge it
- B. The contractor may submit a claim disputing the architect's interpretation through the contract's dispute resolution process while continuing to perform the work — the contractor must comply with the interpretation pending resolution of the dispute
- C. The contractor may immediately stop all work on the project until the dispute is resolved in court
- D. The contractor must file a complaint with the Alabama Licensing Board against the architect

DOMAIN 9: BUSINESS ORGANIZATION (Questions 41–42)

41. A contractor is forming a new company and considering a general partnership structure. Under Alabama law, what is a significant disadvantage of a general partnership compared to a limited liability company?

- A. General partnerships cannot obtain contractor licenses in Alabama under any circumstance
- B. General partnerships must have a minimum of 10 partners to qualify for state registration
- C. General partnerships are taxed at a higher rate than all other business structures without exception

D. In a general partnership, each partner is jointly and severally liable for all partnership debts and obligations — any single partner can be held personally responsible for the full amount of a partnership debt, even if the other partners contributed to the liability

42. A contractor operates as an LLC and wants to ensure the company maintains its limited liability protection. Under Alabama law, which of the following practices helps preserve the LLC's liability protection?

A. Maintaining separate business bank accounts, proper LLC records, adequate capitalization, and treating the LLC as a distinct legal entity separate from the members' personal affairs — these practices demonstrate that the LLC is a legitimate business entity and not merely an alter ego of its owners

B. Using the LLC's bank account for all personal expenses to simplify the owner's financial management

C. Never filing any state reports or paying any state fees to minimize the LLC's operating costs

D. Ignoring all formalities because LLCs are exempt from any organizational requirements in Alabama

DOMAIN 10: RISK MANAGEMENT (Questions 43–46)

43. A contractor is evaluating whether to accept a project with an unusually aggressive schedule, limited access to the site, and unclear specifications. From a risk management perspective, what should the contractor do before committing to this project?

A. Accept the project immediately because all construction projects carry the same level of risk

B. Accept the project but increase the bid price by exactly 5% to cover all potential risks without analysis

C. Perform a thorough risk assessment identifying each specific risk, evaluating the probability and potential impact of each risk, developing mitigation strategies, and pricing the remaining risks into the bid — if the risks are unmanageable, the contractor should decline to bid

D. Decline the project without any analysis because all projects with tight schedules should be avoided

44. Under Alabama law, a contractor performing work near existing underground utilities must take precautions to prevent damage. If the contractor damages an underground gas line during excavation, who may be held liable?

A. Only the utility company is liable because it owns the underground infrastructure being damaged

B. The contractor may be held liable if the contractor failed to request utility locates (calling 811), failed to handdig within the required tolerance zone around marked utilities, or was otherwise negligent in performing the excavation

C. Only the property owner is liable because the owner should have disclosed all utility locations

D. No one is liable for underground utility damage because it is an unavoidable construction risk

45. A contractor's safety manager is developing a "toolbox talk" (tailgate safety meeting) program for the company's field crews. Under OSHA's construction safety standards, what is the purpose of regular toolbox talks?

A. Toolbox talks provide brief, focused safety training on specific hazards relevant to the day's work activities, reinforcing safe work practices, raising awareness of current site conditions, and documenting that workers have been informed of the hazards they will encounter

B. Toolbox talks are social gatherings that have no safety training purpose or OSHA compliance value

C. Toolbox talks are required only once per year at the company's annual safety banquet event

D. Toolbox talks are disciplinary sessions where workers are penalized for previous safety violations

46. A contractor is purchasing professional liability (errors and omissions) insurance for a designbuild project. What specific risk does professional liability insurance cover that the contractor's standard CGL policy does not?

A. Professional liability covers employee injuries that occur during the design phase of the project

B. Professional liability covers theft of the contractor's design documents by competing contractors

C. Professional liability covers damage to the contractor's own office building from natural disasters

D. Professional liability covers claims arising from negligent professional services (design errors, engineering mistakes, inadequate specifications) — the CGL policy excludes coverage for professional services, making separate professional liability coverage essential when the contractor provides design services

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

47. Under OSHA's construction safety standards, scaffolding must be erected, used, and dismantled under the supervision of a competent person. What is the minimum safety factor required for scaffolding and its components?

A. A safety factor of 2:1, meaning the scaffold must support twice its intended load before failure

B. A safety factor of 4:1, meaning the scaffold and all components must be capable of supporting four times the maximum intended load without failure

C. A safety factor of 1.5:1, meaning the scaffold must support 1.5 times its intended load before failure

D. No safety factor is required — scaffolding must only support the exact weight of the workers on it

48. A contractor is working on a project that generates hazardous waste (paint solvents, adhesive residues, and contaminated cleaning agents). Under EPA's Resource Conservation and Recovery Act (RCRA) and ADEM regulations, how must the contractor manage this hazardous waste?

A. Hazardous waste may be poured down the sanitary sewer drain at the construction site for treatment

B. Hazardous waste may be placed in the regular construction dumpster with nonhazardous C&D waste

C. Hazardous waste must be properly identified, stored in labeled containers in a designated accumulation area, and disposed of through a licensed hazardous waste transporter to a permitted treatment or disposal facility in compliance with RCRA and ADEM regulations

D. Hazardous waste may be buried on the construction site in a pit at least 4 feet deep with no reporting

49. Under OSHA regulations, a contractor must post certain documents at the construction site for workers to see. Which of the following documents must be posted at the job site?

A. The OSHA "Job Safety and Health — It's the Law" poster (OSHA 3165) informing workers of their rights under the OSH Act, the OSHA 300A annual summary during the required posting period, and any OSHA citations received for the specific worksite

B. Only the contractor's business license must be posted with no OSHA-related postings required

C. Only the project's architectural drawings must be posted with no safety-related postings required

D. Only the contractor's financial statements must be posted for worker review at the construction site

50. A contractor discovers mold growth in a commercial building during renovation. Under OSHA's guidelines and industry best practices, what should the contractor do?

A. Spray the mold with bleach and continue the renovation work without any additional precautions

B. Paint over the mold growth with a mold-resistant paint to encapsulate the spores permanently

C. Ignore the mold because it is a cosmetic issue with no health or safety implications for workers

D. Stop work in the affected area, assess the extent of the mold contamination, identify and eliminate the moisture source causing the growth, and engage qualified remediation professionals for large-scale mold removal — workers must be protected from mold exposure through appropriate PPE and containment

Practice Exam 3: Answer Key and Explanations

DOMAIN 1: LICENSING REQUIREMENTS (Questions 1–8)

- 1. D** — Alabama's licensing threshold is \$50,000. At \$48,000, this project falls below the threshold and does not require a contractor's license. However, if change orders or scope additions push the total above \$50,000, the handyman would need to obtain a license or stop work. The threshold applies to the total cost of the undertaking including labor and materials.
- 2. B** — Diverting funds from one project to pay expenses on another is a serious violation known as fund diversion. It leaves the first project's subcontractors and suppliers unpaid and may constitute a breach of fiduciary duty. The Licensing Board may take disciplinary action including license revocation, and criminal prosecution may also result.
- 3. A** — The Governor of Alabama appoints the members of the Licensing Board for General Contractors. Board members are selected to represent various aspects of the construction industry and the public interest. The Board oversees all licensing, examination, and disciplinary functions for general contractors in the state.
- 4. C** — The Business and Law examination covers the full range of topics needed to operate a construction business in Alabama: licensing law, business management, contract law, lien law, estimating, financial management, insurance requirements, employment law, safety regulations, and environmental compliance. It tests practical business knowledge, not just technical construction skills.
- 5. D** — Alabama contractor licenses are nontransferable and nonassignable. Each business entity must apply for and obtain its own license based on its own qualifications, financial standing, and qualifying party. Attempting to transfer or share a license is a violation of licensing law that may result in disciplinary action against both parties.
- 6. B** — Submitting false information on a license application or renewal is grounds for denial, suspension, or revocation of the license. The Board may also refer the matter for criminal prosecution for fraud. False statements on government applications carry serious legal consequences beyond the administrative penalties the Board can impose.
- 7. A** — Alabama has enacted legislation requiring the Licensing Board to give appropriate credit for relevant military training and experience when evaluating license applications from veterans. This recognizes that military construction experience — particularly from combat engineering and construction battalions — provides valuable skills directly applicable to civilian construction.
- 8. C** — When a qualifying party leaves or is disqualified, the company must designate a replacement within the timeframe specified by the Board. Until a new qualifying party is approved, the license becomes inactive and the company may not bid on or enter into new contracts. Work on existing contracts may continue under limited conditions during the transition.

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

9. B — Alabama law requires both performance bonds and payment bonds at 100% of the contract price for public construction projects. The performance bond guarantees project completion, and the payment bond guarantees payment to all subcontractors and suppliers. These bonds protect the public entity and the subcontractors who cannot file liens against public property.

10. D — The calculation is straightforward: $10,000 \text{ SF} \div 250 \text{ SF/day} = 40 \text{ labor days}$. Using the company's own historical productivity data provides the most accurate estimate because it reflects the actual performance of the company's crews on similar work. National averages or published data may not reflect the specific company's efficiency.

11. A — When bid documents contain ambiguities or conflicts, the contractor should submit a prebid RFI or question to the architect before the bid deadline. The architect's clarification, typically issued as an addendum, resolves the conflict for all bidders. Assuming either material without clarification creates risk of either overpricing or underpricing the work.

12. C — Under a unit price contract, the contractor is paid for the actual quantity installed at the agreed unit price. At $6,500 \text{ cubic yards} \times \$15.00 \text{ per cubic yard}$, the payment is \$97,500. The owner bears the risk of quantity increases while the contractor bears the risk that the unit price adequately covers the cost at any quantity.

13. B — Alabama's Competitive Bid Law requires public construction projects to be advertised in a newspaper of general circulation in the county where the work will be performed. The advertisement must run for a minimum number of days before the bid opening to ensure that all interested contractors have adequate notice and an equal opportunity to prepare and submit bids.

DOMAIN 3: LIEN LAWS (Questions 14–15)

14. D — A properly filed mechanics' lien runs with the property and survives a transfer of ownership. The new owner takes the property subject to the existing lien. This is why title searches and title insurance are essential before purchasing property — they identify existing liens that could encumber the new owner's title.

15. A — Material suppliers, as remote claimants (not in direct contract with the property owner), must provide a preliminary notice to the property owner within the timeframe required by Alabama law to preserve their lien rights. Without this notice, the supplier may lose the right to file a mechanics' lien even if the supplier is legitimately owed money.

DOMAIN 4: FINANCIAL MANAGEMENT (Questions 16–20)

16. D — The debt-to-equity ratio is total liabilities divided by total equity: $\$400,000 \div \$200,000 = 2.0$. This means the company has \$2 of debt for every \$1 of equity. A higher ratio indicates greater financial leverage and higher risk. Sureties and lenders prefer lower ratios, typically below 3.0 for construction companies.

17. C — Gross profit equals the contract price minus the actual cost: $\$450,000 - \$420,000 = \$30,000$. The original estimated cost of \$400,000 is irrelevant to the actual gross profit.

calculation — what matters is what the project actually cost to build. The \$20,000 cost overrun (\$420,000 actual vs. \$400,000 estimated) reduced the expected profit from \$50,000 to \$30,000.

18. A — Separating operating funds from trust/escrow funds prevents commingling, which can constitute fund diversion under Alabama licensing law. When a contractor receives payment from an owner that includes funds designated for subcontractors and suppliers, those funds should be held separately until disbursed. Commingling exposes the contractor to disciplinary action and potential criminal liability.

19. D — Aging accounts receivable represent a growing risk of noncollection. Industry data shows that collection probability drops significantly as invoices age beyond 90 days. Uncollected receivables reduce available cash, increase borrowing needs, and may eventually require writeoffs that directly reduce the company's reported profitability and net worth.

20. B — The projected final cost of the electrical subcontract is \$350,000 — the original committed subcontract value — assuming no approved change orders have modified the subcontract amount. The billed and paid amounts are interim figures that do not change the total contractual obligation. If change orders exist, they would be added to the committed cost.

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

21. C — The employer's Medicare tax rate is 1.45% of all employee wages with no annual wage base limit. The employee also pays 1.45%, for a combined rate of 2.9%. Unlike Social Security tax (which has a wage base cap), Medicare tax applies to every dollar of wages earned with no ceiling.

22. A — Structural steel erection and roofing consistently carry the highest workers' compensation classification rates because these activities involve the greatest risk of catastrophic injury — primarily falls from height, struckby incidents, and collapse hazards. Classification rates directly reflect the historical frequency and severity of injuries in each trade.

23. D — Workers' compensation is the exclusive remedy against the employer, but it does not bar thirdparty lawsuits. If a defective product manufactured by a third party caused the injury, the employee may pursue a separate product liability claim against the manufacturer. The workers' compensation benefits received may be offset against any thirdparty recovery.

24. B — Completed operations coverage protects the contractor against claims for bodily injury or property damage that arise from the contractor's completed work after the project is finished and turned over to the owner. This coverage is essential because construction defects may not manifest until months or years after completion.

25. C — Operating without required workers' compensation insurance exposes the contractor to fines, criminal penalties, and direct personal liability for all medical expenses and lost wages of injured employees. Without the workers' compensation system's exclusive remedy protection, injured employees may also sue the employer directly for negligence, and the corporate liability shield may be pierced.

26. A — The insurance company pays the loss minus the deductible: $\$150,000 - \$10,000 = \$140,000$. The deductible is the insured party's share of each loss — it must be paid first before

the insurance coverage applies. Higher deductibles reduce premium costs but increase the insured's outofpocket expense per claim.

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

27. B — The Age Discrimination in Employment Act protects individuals who are 40 years of age or older from employment discrimination based on age. The ADEA applies to employers with 20 or more employees and covers all aspects of employment including hiring, firing, compensation, promotions, and terms of employment.

28. D — OSHA requires employers to ensure that employees are trained and competent in the safe operation of any equipment they are assigned to use. Directing an untrained worker to operate heavy equipment is a serious safety violation that creates an immediate risk of injury or death. The foreman and the employer are both responsible for this violation.

29. A — Under the NLRA, once employees vote to form a union, the employer must recognize the union and bargain in good faith regarding wages, hours, and working conditions. Refusing to bargain, retaliating against union supporters, or interfering with union activities constitutes an unfair labor practice subject to NLRB enforcement.

30. D — When the IRS reclassifies an independent contractor as an employee, the contractor faces liability for back employment taxes including the employer's share of Social Security and Medicare, federal income tax withholding that should have been collected, penalties for failure to file and pay, and interest on all unpaid amounts for the entire period of misclassification.

31. B — OSHA requires employers to assess workplace hazards and provide appropriate PPE at no cost to employees. Required PPE varies by hazard but commonly includes hard hats, safety glasses, hearing protection, highvisibility vests, gloves, and respiratory protection. The employer must also train employees on the proper use, care, and limitations of all PPE provided.

DOMAIN 7: PROJECT MANAGEMENT (Questions 32–34)

32. D — A hurricane is a classic force majeure event — an act of God beyond either party's control. The contractor is typically entitled to a time extension for the lost working days but not additional monetary compensation because neither party caused the delay. The contractor must still pay its own standby costs during the weather delay.

33. D — The architect has the responsibility to verify that progress billings accurately reflect the actual work completed. If the architect determines that only 35% of the concrete work is complete, the certified amount should be $35\% \times \$200,000 = \$70,000$, not the contractor's claimed \$100,000. Overbilling must be corrected to protect the owner from overpayment.

34. D — The general contractor is responsible for coordinating all subcontractor work and resolving scope gaps. When fire caulking falls between two subcontractors' scopes, the GC must determine which subcontract covers the work based on the contract documents and trade practice, assign the responsibility, or selfperform the work and allocate the cost appropriately.

DOMAIN 8: CONTRACT MANAGEMENT (Questions 35–40)

35. B — The doctrine of impossibility may excuse contract performance when an unforeseen event beyond either party's control makes performance physically or legally impossible. Examples include government-ordered project suspension, destruction of the project by an uninsured event, or enactment of a law that prohibits the contracted work. Mere difficulty or increased cost does not constitute impossibility.

36. D — Paywhenpaid clauses are generally interpreted as timing mechanisms rather than absolute conditions precedent. If the owner's payment is delayed beyond a reasonable time, the general contractor typically must still pay the subcontractor. Courts distinguish between paywhenpaid (timing) and payifpaid (condition precedent), with the latter being more strictly construed.

37. C — Alabama's antiindemnity statute prohibits construction contract provisions that require one party to indemnify another for the indemnitee's own negligence. A contractor may be required to indemnify the owner for claims arising from the contractor's negligence, but not for claims arising from the owner's own negligent acts or omissions.

38. A — Alabama's statute of limitations for breach of a written contract is six years from the date of the breach. This establishes the maximum time within which a lawsuit must be filed. Claims filed after the six-year period are barred regardless of their merit. The statute of repose may impose an additional outer time limit measured from project completion.

39. D — The enforceability of advance (prelien) waivers of mechanics' lien rights is a complex legal question that varies by jurisdiction. Alabama courts generally disfavor advance waivers of statutory lien rights. Waivers executed after the work is performed and payment is received (conditional and unconditional lien waivers) are more routinely enforced.

40. B — Under AIA A201, the contractor may dispute the architect's interpretation through the contract's claim and dispute resolution process. However, the contractor must comply with the interpretation and continue performing the work while the dispute is being resolved. Stopping work over a disputed interpretation may constitute a breach of contract.

DOMAIN 9: BUSINESS ORGANIZATION (Questions 41–42)

41. D — In a general partnership, each partner has joint and several liability for all partnership debts and obligations. This means any single partner can be held personally responsible for the full amount of a partnership debt, even if the liability was created by another partner's actions. This unlimited personal exposure is the primary disadvantage compared to an LLC.

42. A — Maintaining the LLC's limited liability protection requires treating the LLC as a separate legal entity: keeping separate bank accounts, maintaining proper records, holding required meetings, maintaining adequate capitalization, and not commingling personal and business finances. These practices demonstrate that the LLC is a legitimate entity, not merely the owner's alter ego.

DOMAIN 10: RISK MANAGEMENT (Questions 43–46)

43. C — A thorough risk assessment identifies each specific risk (schedule, access, specification ambiguity), evaluates the probability and potential financial impact of each risk, develops mitigation strategies (schedule contingency, early owner meetings, prebid RFIs), and prices the remaining unmitigated risks into the bid. If the aggregate risk is unacceptable, the contractor should decline to bid.

44. B — The contractor may be held liable for underground utility damage if the contractor failed to call 811 for utility locates, failed to handdig within the required tolerance zone around marked utilities, or was otherwise negligent during excavation. Alabama law requires contractors to request utility locates before excavating and to exercise due care near marked utilities.

45. A — Toolbox talks provide brief, focused safety training on specific hazards relevant to the current day's work activities. They reinforce safe practices, raise awareness of changing site conditions, and create documented evidence that workers have been informed of the hazards they will encounter. Consistent toolbox talks significantly reduce injury rates.

46. D — Professional liability (E&O) insurance covers claims arising from negligent professional services — design errors, engineering mistakes, and inadequate specifications. The standard CGL policy explicitly excludes coverage for professional services. When a contractor provides design services (designbuild, delegated design), separate professional liability coverage is essential to cover this designrelated exposure.

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

47. B — OSHA requires scaffolding and all its components to have a minimum safety factor of 4:1 — the scaffold must support four times the maximum intended load without failure. This substantial safety margin accounts for dynamic loading, uneven load distribution, material degradation, and the catastrophic consequences of scaffold collapse.

48. C — Hazardous waste must be properly identified, characterized, and stored in labeled containers in a designated accumulation area that meets RCRA requirements. Disposal must be through a licensed hazardous waste transporter to a permitted treatment, storage, or disposal facility. Improper hazardous waste disposal carries severe civil and criminal penalties under both federal and state law.

49. A — OSHA requires the "Job Safety and Health — It's the Law" poster to be displayed at the worksite where employees can see it. The OSHA 300A annual summary must be posted from February 1 through April 30 each year. Any OSHA citations received for the specific worksite must also be posted at or near the location of the violation.

50. D — Mold contamination requires a systematic response: stop work in the affected area, assess the extent of contamination, identify and eliminate the moisture source, and engage qualified remediation professionals for significant mold growth. Workers must be protected from exposure through appropriate PPE and containment. Painting over or bleaching mold without addressing the moisture source does not solve the problem.