

PRACTICE EXAM 4: 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 contractor holds an Alabama general contractor's license with a monetary limitation of \$1,000,000. The contractor wants to bid on a project valued at \$950,000 that also includes a \$200,000 ownerfurnished equipment allowance, bringing the total project value to \$1,150,000. Under Alabama licensing law, does the contractor's current license authorize this bid?

A. The contractor must evaluate whether the licensable portion of the work (the construction cost excluding ownerfurnished equipment) falls within the \$1,000,000 monetary limit — if the \$950,000 construction scope is within the limit, the bid may be permissible, but the contractor should verify with the Board

B. The contractor may bid because the average of the construction cost and the equipment allowance is under \$1,000,000

C. The contractor may always bid on any project regardless of value as long as the license is current and active

D. The monetary limit is based on the contractor's annual revenue, not individual project values

2. Under Alabama law, a person who acts as a contractor without a license may be prosecuted criminally. In addition to criminal penalties, what civil consequence does the unlicensed person face regarding any construction contracts entered into while unlicensed?

A. The contracts remain fully enforceable but the unlicensed contractor must pay a 15% penalty surcharge

B. The contracts are enforceable only if the project cost is below \$100,000 regardless of licensing status

C. The contracts are void and unenforceable — the unlicensed person cannot use the courts to collect payment for work performed, and the other party may seek return of payments already made

D. The contracts become enforceable if the contractor obtains a license within 90 days of project completion

3. A contractor's qualifying party passes away unexpectedly. The company has three active projects under construction. Under Alabama licensing regulations, what immediate impact does this event have on the company's license and operations?

A. The company's license is automatically transferred to the most senior project superintendent on staff

B. The company must notify the Board immediately and designate a new qualifying party within the timeframe allowed by the Board — the company may continue work on existing contracts during this transition period under limited conditions, but may not enter into new contracts until a new qualifying party is approved

C. The company must immediately stop all work on every project and cannot resume until a new company is formed

D. The death of the qualifying party has no effect on the license and no notification is required

4. Under Alabama law, a licensed contractor who fails to pay the annual license renewal fee by the deadline faces specific consequences. What is the primary consequence of failing to renew on time?

A. The contractor receives an automatic 12month extension with no penalty or fee increase

B. The contractor may continue operating under the expired license for up to 6 months without any consequence

C. The contractor's renewal fee is reduced by 50% as an incentive to encourage timely renewal the following year

D. The license lapses and the contractor must cease bidding on and entering into new contracts — reinstatement may require payment of back fees, penalties, and potentially reexamination depending on the length of the lapse

5. A general contractor hires a roofing subcontractor for a \$75,000 reroofing project on a commercial building. The subcontractor does not hold an Alabama contractor's license. Under Alabama licensing law, what liability does the general contractor face for using an unlicensed subcontractor?

A. The general contractor has no liability because only the subcontractor is responsible for its own licensing

B. The general contractor is liable only if the subcontractor performs defective work on the roofing project

C. The general contractor may face disciplinary action from the Licensing Board for knowingly engaging an unlicensed subcontractor to perform work requiring licensure — the GC has a duty to verify that subcontractors hold appropriate licenses for their scope of work

D. The general contractor is liable only on federal government projects and not on private commercial work

6. Under Alabama licensing law, the Licensing Board may conduct investigations of licensed contractors based on complaints received from the public, other contractors, or government agencies. What triggers the Board's investigative authority?

A. The Board may investigate a licensee upon receipt of a written, sworn complaint alleging a violation of the licensing law or Board regulations, or upon its own initiative when it has reason to believe a violation has occurred

B. The Board may investigate only after a criminal conviction has been obtained in a court of law

C. The Board may investigate only complaints filed by other licensed contractors and not by the public

D. The Board has no investigative authority and may act only upon referral from the Alabama Attorney General

7. A contractor from Mississippi wants to work on a single commercial project in Alabama valued at \$250,000. The contractor holds a valid Mississippi general contractor's license. Under Alabama's reciprocity agreement with Mississippi, what process must the contractor follow?

A. The Mississippi license automatically authorizes work in Alabama with no additional filing required

B. The contractor must wait two years as an Alabama resident before applying for any Alabama license

C. Reciprocity between Alabama and Mississippi has been permanently revoked and no crosstate work is permitted

D. The contractor must apply for an Alabama license through the reciprocity provisions, which may streamline the process but still require compliance with Alabama's application requirements including fees, financial qualifications, and any examinations not covered by the reciprocal agreement

8. Under Alabama law, a contractor's license may be revoked for "abandonment" of a construction project. What constitutes abandonment under Alabama licensing law?

A. Abandonment occurs only when the contractor physically removes all equipment from the site

B. Abandonment is generally defined as the contractor's unjustified cessation of work on a project for a prolonged period without a legitimate contractual basis — failing to prosecute the work diligently, leaving the project incomplete without cause, or refusing to return to correct defective work may constitute abandonment

C. Taking a oneday holiday during construction constitutes abandonment under Alabama licensing law

D. Abandonment can only be claimed if the contractor has been paid in full for all work performed to date

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

9. A contractor is preparing a bid for a commercial project and the specifications include an "allowance" of \$35,000 for decorative light fixtures. The contractor must include this allowance in the bid. Under standard bidding practice, how should the contractor handle the allowance amount?

A. The contractor should exclude the allowance from the bid and add it later through a change order

B. The contractor should double the allowance amount in the bid to cover overhead and profit markup

C. The contractor should include the \$35,000 allowance in the bid at the stated amount — when the actual fixture cost is determined during construction, the contract price is adjusted by

change order for the difference between the allowance and the actual cost, plus the contractor's applicable markup

D. The contractor keeps any unused portion of the allowance as additional profit with no adjustment

10. A contractor is calculating the markup on a bid for a commercial project. The direct cost estimate totals \$800,000. The contractor wants to achieve a net profit of 5% on the total contract price. After adding 10% for general conditions (\$80,000) and 4% for home office overhead (\$32,000), what is the minimum contract price the contractor should bid?

A. The minimum bid should be calculated by adding the direct costs (\$800,000), general conditions (\$80,000), and home office overhead (\$32,000) for a subtotal of \$912,000, then adding a 5% profit margin — the total bid equals approximately \$960,000 ($\$912,000 \div 0.95$) to achieve a 5% net profit on the total price

B. The minimum bid is \$800,000 because profit and overhead are absorbed within the direct costs

C. The minimum bid is \$1,200,000 calculated by adding 50% to all direct costs for markup

D. The minimum bid cannot be calculated without knowing the exact number of subcontractors on the project

11. A public project in Alabama receives three bids: Contractor A at \$1,200,000, Contractor B at \$1,350,000, and Contractor C at \$1,100,000. However, Contractor C's license monetary limitation is \$1,000,000. Under Alabama's Competitive Bid Law, to whom should the contract be awarded?

A. Contractor C because it submitted the lowest bid regardless of the licensing limitation

B. Contractor B because it submitted the highest bid and public projects must award to the highest bidder

C. All bids must be rejected and the project rebid because Contractor C's ineligible bid taints the process

D. Contractor A, because Contractor C's bid is nonresponsive (the contractor's license does not authorize a project of this value), making Contractor A the lowest responsive, responsible bidder

12. A contractor is evaluating whether to selfperform the concrete work or subcontract it. The contractor's estimate for selfperforming the concrete is \$180,000. The lowest subcontractor bid is \$165,000. Beyond the price difference, what other factors should the contractor consider?

A. Price is the only factor — the contractor must always select the lowest cost option without exception

B. The contractor should consider the risk allocation (selfperformance means the GC bears all concrete risk), the impact on the GC's workforce and scheduling flexibility, the subcontractor's qualifications and track record, the effect on the GC's bonding capacity, and the contractor's available supervisory resources for managing the concrete crew

C. The contractor should always selfperform to maximize revenue regardless of the cost difference

D. The contractor should never selfperform any work and must subcontract 100% of all trades

13. A contractor discovers after submitting a sealed bid on a public project that the estimator omitted a \$50,000 electrical allowance from the bid. The bid opening is scheduled for the next day. Under standard public bidding procedures, what can the contractor do?

A. The contractor may withdraw the bid before the bid opening by submitting a written notice of withdrawal to the bidreceiving authority — after withdrawal, the contractor may submit a corrected bid if the submission deadline has not passed

B. The contractor may call the bidreceiving authority and verbally modify the bid amount by adding \$50,000

C. The contractor must honor the bid as submitted because no modifications or withdrawals are permitted

D. The contractor may submit a second bid at the higher amount while keeping the original bid active

DOMAIN 3: LIEN LAWS (Questions 14–15)

14. Under Alabama's mechanics' lien law, a contractor's lien rights are affected by the contractor's license status. A contractor who was properly licensed at the time the work was performed but whose license later expires before the lien is filed — does the contractor retain lien rights?

- A. The contractor permanently loses all lien rights the moment the license expires regardless of circumstances
- B. The lien rights depend on the contractor's insurance status and not on the license status at any point
- C. The critical factor is whether the contractor was properly licensed at the time the work was performed — if the contractor held a valid license during the period of work, the lien rights for that work are generally preserved even if the license later expires before the lien is filed
- D. Lien rights are not affected by licensing status under any circumstances in Alabama

15. A property owner in Alabama hires a general contractor to build a commercial building. The general contractor hires a plumbing subcontractor, and the plumbing subcontractor purchases pipe from a material supplier. The general contractor fails to pay the plumber, and the plumber fails to pay the pipe supplier. Under Alabama's mechanics' lien law, against whose property may the pipe supplier file a mechanics' lien?

- A. The supplier may file a lien only against the plumbing subcontractor's property, not the project property
- B. The supplier may file a lien only against the general contractor's personal property and business assets
- C. The supplier has no lien rights because it is too far removed from the property owner in the contract chain
- D. The supplier may file a mechanics' lien against the property owner's real property where the improvement was made, provided the supplier has complied with Alabama's preliminary notice requirements for remote claimants — the lien attaches to the property that was improved regardless of how many contract tiers separate the supplier from the owner

DOMAIN 4: FINANCIAL MANAGEMENT (Questions 16–20)

16. A contractor is evaluating the company's "backlog" — the total value of all contracts awarded but not yet completed. The company has a backlog of \$3,000,000 and an annual revenue capacity of \$4,000,000. From a financial management perspective, what does the backlog level indicate?

- A. The backlog indicates that the company has approximately 9 months of contracted work ahead (assuming revenue is earned ratably), providing visibility into future revenue but also requiring careful cash flow planning to fund the work until payments are received
- B. The backlog indicates the company is insolvent and cannot pay its current debts
- C. Backlog has no significance for financial planning and should be disregarded by management
- D. The backlog indicates the company has too much work and must immediately stop bidding

17. A contractor receives an owner's progress payment of \$250,000. The contractor's subcontractors and suppliers are owed \$200,000 for work completed during the billing period. Under Alabama law and standard construction practice, within what general timeframe should the contractor pay the subcontractors?

- A. The contractor may hold all subcontractor payments until the entire project is 100% complete
- B. The contractor may delay subcontractor payments for 120 days after receiving the owner's payment
- C. The contractor should pay subcontractors promptly after receiving the owner's payment — many contracts and Alabama's prompt payment provisions require payment within a specified number of days after the contractor receives payment from the owner, and unreasonable withholding may trigger interest penalties and lien claims
- D. The contractor has no obligation to pay subcontractors from owner progress payments under Alabama law

18. A contractor's accountant prepares a "workinprogress" (WIP) schedule that shows the status of all active projects. One project shows costs billed (\$300,000) exceeding costs incurred (\$250,000). What does this condition indicate?

- A. The project is under budget by \$50,000 and the contractor should reduce the next billing accordingly
- B. The contractor has overbilled the owner by \$50,000 — billings exceed the actual cost and earned revenue, which appears as a current liability ("billings in excess of costs") on the balance sheet because the contractor has received more money than the work justifies
- C. The project is exactly on budget because billings and costs are being tracked separately

D. This condition is impossible and indicates an accounting error that must be corrected immediately

19. A contractor is managing a project with a total contract value of \$1,500,000 and a 10% retainage provision. At the end of month 6, the contractor has billed \$900,000 in gross billings. How much retainage has been withheld, and what is the net amount the contractor has received (assuming all billings have been paid)?

A. Retainage withheld: \$45,000; Net received: \$855,000 (based on 5% retainage, not 10%)

B. Retainage withheld: \$150,000; Net received: \$750,000 (based on 10% of the total contract, not billings)

C. Retainage withheld: \$0; Net received: \$900,000 (retainage applies only after 50% completion)

D. Retainage withheld: \$90,000 (10% of \$900,000 gross billings); Net received: \$810,000 (\$900,000 minus \$90,000 retainage) — the contractor must fund the retainage gap from working capital or a line of credit until retainage is released

20. A contractor's financial statement shows a "quick ratio" (acid test ratio) of 0.8. The quick ratio is calculated by dividing liquid assets (cash plus accounts receivable) by current liabilities. What does a quick ratio below 1.0 indicate about the contractor's financial condition?

A. A quick ratio below 1.0 is the ideal financial condition for all construction companies

B. A quick ratio below 1.0 indicates the company has more liquid assets than current liabilities

C. A quick ratio below 1.0 indicates the company's liquid assets are insufficient to cover its current liabilities — the company may have difficulty paying its shortterm obligations without selling inventory, borrowing, or converting other nonliquid assets to cash

D. The quick ratio has no financial significance for construction companies and should be disregarded

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

21. Under federal tax law, an employer must provide Form 1099NEC to each independent contractor who was paid \$600 or more during the calendar year. What information does Form 1099NEC report?

- A. Form 1099NEC reports the contractor's employee headcount and payroll tax withholding details
- B. The total amount of nonemployee compensation paid to the independent contractor during the calendar year — no taxes are withheld because independent contractors are responsible for paying their own income and selfemployment taxes
- C. Form 1099NEC reports only the independent contractor's Social Security number for IRS verification
- D. Form 1099NEC reports the independent contractor's hourly rate but not the total compensation paid

22. A contractor is reviewing the company's workers' compensation experience modification rate (EMR) and discovers it has increased from 0.85 to 1.15 over the past two years. What is the financial impact of this EMR increase?

- A. The EMR increase reduces the company's workers' compensation premium by approximately 30%
- B. The EMR increase has no financial impact because the EMR is purely an informational metric
- C. The EMR increase improves the company's safety record rating with OSHA and reduces inspection frequency
- D. The EMR increase raises the company's workers' compensation premium by approximately 35% (from 15% below average at 0.85 to 15% above average at 1.15), and may also disqualify the company from bidding on projects that require an EMR below 1.0

23. Under Alabama law, employers must file quarterly wage reports and pay state unemployment insurance (SUTA) taxes. What state agency administers the unemployment insurance program in Alabama?

- A. The Alabama Licensing Board for General Contractors administers unemployment insurance for contractors
- B. The Alabama Department of Finance administers unemployment insurance for all employers in the state
- C. The Alabama Department of Labor administers the unemployment insurance program, including employer registration, tax collection, quarterly wage reporting, and benefit claims processing

D. Unemployment insurance is administered exclusively by the federal government with no state involvement

24. A contractor's CGL insurance policy has a "per occurrence" limit of \$1,000,000 and a "general aggregate" limit of \$2,000,000. What is the difference between these two limits?

A. The per occurrence limit is the maximum the insurer will pay for any single claim or incident, while the general aggregate is the maximum total the insurer will pay for all claims combined during the policy period — once the aggregate is exhausted, no further coverage is available until the policy renews

B. The per occurrence limit and general aggregate are identical amounts that apply interchangeably

C. The per occurrence limit applies only to property damage while the aggregate applies only to bodily injury

D. The general aggregate applies only to the first claim of the policy period with subsequent claims unlimited

25. A contractor hires a new field superintendent and must determine the correct federal income tax withholding amount. What form does the employee complete to establish the withholding amount, and what information does it provide?

A. Form I9 is used to calculate federal income tax withholding based on the employee's citizenship status

B. Form W4 (Employee's Withholding Certificate) is completed by the employee to indicate filing status and claim withholding adjustments — the employer uses this information to calculate the correct amount of federal income tax to withhold from each paycheck

C. Form W2 is completed by the employee before the first paycheck to establish the withholding rate

D. Form 1099 is completed by the employee to establish tax withholding for all salaried positions

26. Under Alabama law, a contractor who is the prime contractor on a public project must ensure that workers on the project are paid at least the applicable prevailing wage rate when

the project is subject to DavisBacon requirements. Under what condition do DavisBacon prevailing wage requirements apply?

- A. DavisBacon applies to all private residential construction projects regardless of funding source
- B. DavisBacon applies to all construction projects in Alabama regardless of the contracting entity
- C. DavisBacon applies only to projects where no subcontractors are involved and the GC selfperforms all work
- D. DavisBacon prevailing wage requirements apply to federally funded or federally assisted construction projects exceeding \$2,000 — the contractor must pay workers at least the prevailing wage rates determined by the Department of Labor for the geographic area

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

27. Under the Equal Pay Act, employers are prohibited from paying different wages to employees of different sexes for performing substantially equal work. What factors may legally justify a pay differential between male and female employees performing the same job?

- A. A pay differential may be justified by a seniority system, a merit system, a system measuring earnings by quantity or quality of production, or any factor other than sex — these are the four statutory exceptions to the Equal Pay Act's equal pay requirement
- B. No pay differential is ever permitted between male and female employees under any circumstances
- C. Pay differentials are permitted based solely on the employer's personal preference for one employee
- D. The Equal Pay Act allows unlimited pay differentials as long as both employees earn above minimum wage

28. A contractor's project superintendent observes a worker on the job site who appears to be under the influence of alcohol. Under OSHA regulations and standard construction safety practice, what action should the superintendent take?

- A. The superintendent should ignore the situation because employers cannot address substance abuse issues

- B. The superintendent should have the worker operate heavy equipment to test whether the impairment is real
- C. The superintendent should immediately remove the worker from all job duties, prevent the worker from operating any equipment or performing any work, and follow the company's substance abuse policy — an impaired worker is a serious safety hazard to themselves and all other workers on the site
- D. The superintendent should wait until the worker causes an accident before taking any action

29. Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), employers with 20 or more employees must offer continuation of group health insurance coverage to employees who experience a qualifying event. What is a "qualifying event" that triggers COBRA coverage?

- A. Receiving a pay raise that increases the employee's annual salary above \$50,000
- B. Transferring to a different project site within the same city or metropolitan area
- C. Purchasing a new personal vehicle that changes the employee's commute distance
- D. Termination of employment (voluntary or involuntary, except for gross misconduct), reduction in hours, divorce or legal separation, death of the covered employee, or the employee becoming eligible for Medicare

30. A contractor employs both field workers and office administrative staff. Under OSHA's jurisdiction, which employees are covered by OSHA's construction safety standards (29 CFR 1926)?

- A. Only office administrative staff who work exclusively in the contractor's home office are covered
- B. Only workers who operate heavy equipment are covered by OSHA construction safety standards
- C. OSHA construction standards do not apply to any employees of licensed general contractors in Alabama
- D. All employees who are exposed to construction site hazards are covered by OSHA's construction safety standards, including field workers, supervisors, and any administrative or support staff who visit or work at construction sites

31. Under the Employee Retirement Income Security Act (ERISA), if a contractor offers a retirement plan (such as a 401(k)) to employees, the plan must meet specific requirements. What is a key ERISA requirement for employersponsored retirement plans?

A. ERISA requires that all retirement plans guarantee a minimum annual return of 10% on employee investments

B. ERISA requires only that the employer make a matching contribution of at least 100% of employee deferrals

C. ERISA requires that retirement plan fiduciaries manage the plan solely in the interest of the participants, maintain plan transparency through required disclosures, ensure the plan does not discriminate in favor of highly compensated employees, and follow established vesting schedules

D. ERISA applies only to government employers and has no requirements for private construction companies

DOMAIN 7: PROJECT MANAGEMENT (Questions 32–34)

32. A contractor is managing a commercial project and the owner's representative requests a "resourceloaded" CPM schedule rather than a standard durationbased schedule. What additional information does a resourceloaded schedule provide?

A. A resourceloaded schedule assigns specific labor crews, equipment, and material quantities to each activity in the CPM schedule, enabling the project team to identify resource conflicts, balance workloads, forecast labor demand curves, and coordinate material deliveries with the construction sequence

B. A resourceloaded schedule shows only the project's financial information with no construction activities

C. A resourceloaded schedule is identical to a standard bar chart with no additional information provided

D. A resourceloaded schedule shows only the weather forecast for each day of the project timeline

33. A contractor discovers during construction that the soil conditions are significantly different from those described in the geotechnical report included in the bid documents. The additional foundation work will cost \$75,000 and delay the project by 3 weeks. Under standard contract

provisions, the contractor submits a differing site conditions claim. What must the contractor prove to support this claim?

- A. The contractor must only state that the conditions are different with no supporting documentation required
- B. The contractor has no right to claim for differing site conditions under any construction contract
- C. The contractor must prove only that the project is over budget regardless of the cause of the cost increase
- D. The contractor must demonstrate that the actual conditions differ materially from those indicated in the contract documents (Type I) or from those ordinarily expected (Type II), that the contractor could not have reasonably anticipated the conditions, and that the conditions caused additional cost and time

34. A contractor's project manager calculates the Schedule Performance Index (SPI) for a commercial project using earned value data. The planned value (PV) is \$400,000 and the earned value (EV) is \$360,000. What is the SPI, and what does it indicate?

- A. $SPI = 1.11$, indicating the project is 11% ahead of schedule based on the earned value analysis
- B. The SPI is 0.90 ($EV/PV = \$360,000/\$400,000$), indicating the project is behind schedule — only 90% of the planned work has been completed, meaning the project is 10% behind the planned progress at this point
- C. $SPI = 0.50$, indicating the project is 50% behind schedule based on the earned value calculation
- D. SPI cannot be calculated without knowing the actual cost of the work performed to date

DOMAIN 8: CONTRACT MANAGEMENT (Questions 35–40)

35. Under Alabama law, a construction contract may be terminated by "mutual rescission." What is mutual rescission, and how does it affect the parties' obligations?

- A. Mutual rescission means only one party agrees to terminate while the other party objects to the termination

B. Mutual rescission is a court-ordered termination imposed against both parties' wishes by the judge

C. Mutual rescission occurs when both parties voluntarily agree to cancel the contract and release each other from further obligations — the parties typically negotiate the terms of the rescission including payment for work completed and the disposition of materials

D. Mutual rescission applies only to government contracts and cannot be used for private construction

36. A contractor signs a construction contract that includes a "waiver of consequential damages" clause. Under this clause, both the owner and the contractor waive claims for consequential damages. What types of damages does the contractor waive under this provision?

A. The contractor waives claims for consequential damages such as lost profits on other projects, damage to business reputation, loss of bonding capacity, and other indirect financial losses that result from the owner's breach — the contractor retains the right to claim direct damages only

B. The contractor waives all rights to any compensation including payment for completed work

C. The contractor waives only the right to file mechanics' liens and retains all other legal remedies

D. The waiver has no practical effect because consequential damages are never awarded in construction cases

37. A contractor receives a written notice from the owner directing the contractor to accelerate the project schedule by 30 days. The acceleration will require overtime labor, additional crews, and expedited material deliveries. Under standard contract provisions, who pays for the acceleration costs?

A. The contractor always pays for acceleration regardless of who directed it or the reason for the schedule change

B. The subcontractors pay for all acceleration costs because they perform the actual construction work

C. Acceleration costs are always split equally between the owner and the contractor without negotiation

D. When the owner directs acceleration, the owner pays the additional costs through a change order — the acceleration directive is a change to the contract that entitles the contractor to the resulting additional costs

38. Under Alabama contract law, what is the difference between "express" and "implied" warranties in a construction contract?

A. Express warranties apply only to materials while implied warranties apply only to labor without exception

B. Express warranties are explicitly stated in the contract documents (such as a oneyear warranty for workmanship), while implied warranties arise by operation of law regardless of whether they are written in the contract (such as the implied warranty of habitability for residential construction)

C. Express and implied warranties are identical terms with no legal distinction between them in Alabama

D. Only federal law governs warranties in construction — Alabama state law has no warranty provisions

39. A contractor is performing renovation work on an existing building and discovers that the existing structural conditions differ significantly from what was shown on the architect's asbuilt drawings provided during bidding. The additional demolition and reconstruction costs \$45,000. Under standard contract provisions, what type of claim may the contractor have?

A. The contractor has no claim because renovation projects always involve unknown existing conditions

B. The contractor may claim only a time extension but no additional compensation for the changed conditions

C. The contractor may have a claim for a change order based on concealed or unknown conditions — if the existing conditions could not have been reasonably discovered during the prebid investigation and differ materially from what was represented in the bid documents, the contractor may be entitled to additional cost and time

D. The contractor must absorb all costs related to existing conditions because renovation risk is nontransferable

40. A project owner issues a "notice of default" to the contractor, citing the contractor's failure to maintain adequate progress on the project. Under standard contract provisions, what must occur before the owner may terminate the contractor for cause?

A. The owner may terminate immediately upon issuing the notice of default with no cure period required

B. The owner may terminate only after receiving permission from the Alabama Licensing Board

C. The owner may terminate only after the project is 100% complete and all final payments have been made

D. The owner must provide the contractor with written notice of the default and a reasonable cure period during which the contractor may correct the deficiency — if the contractor fails to cure within the specified period, the owner may proceed with termination for cause

DOMAIN 9: BUSINESS ORGANIZATION (Questions 41–42)

41. A contractor operates as a sole proprietorship and is considering forming a corporation. Under Alabama law, what steps are required to form a corporation?

A. The contractor must file articles of incorporation with the Alabama Secretary of State, designate a registered agent, adopt bylaws, issue stock, elect directors and officers, obtain an employer identification number (EIN), and register with the Alabama Department of Revenue for state tax purposes

B. No filing is required — the contractor simply begins using "Inc." after the company name

C. Only a verbal declaration to the county clerk is required to form a corporation in Alabama

D. Corporations cannot be formed in Alabama and the contractor must incorporate in another state

42. A contractor's LLC has two members who disagree about the direction of the company. One member wants to expand into heavy civil construction while the other wants to focus on commercial building. Under Alabama law, how are disputes between LLC members typically resolved?

- A. The Alabama Licensing Board resolves all disputes between LLC members as part of its regulatory authority
- B. All LLC disputes must be resolved by the Governor's office through a formal petition process
- C. Disputes between LLC members are typically resolved according to the operating agreement — a well-drafted operating agreement includes provisions for decisionmaking authority, voting procedures, dispute resolution mechanisms, and buyout provisions that address disagreements between members
- D. LLC members may never disagree and must always reach unanimous consent on every business decision

DOMAIN 10: RISK MANAGEMENT (Questions 43–46)

43. A contractor is evaluating the risk of a construction defect claim on a completed commercial building. The building was completed two years ago and the one-year warranty has expired. Under Alabama law, can the owner still pursue a claim for latent construction defects discovered after the warranty period?

- A. No, the one-year warranty is the absolute limit of the contractor's liability with no further exposure
- B. No, all construction defect claims must be filed within 30 days of project completion without exception
- C. Only claims for structural collapse are permitted after the warranty expires — all other defect claims are barred
- D. Yes, the owner may pursue a claim under the applicable statute of limitations (6 years for breach of written contract in Alabama) or the statute of repose — the one-year warranty is the contractor's strict obligation to repair, but the owner's broader legal rights extend beyond the warranty period

44. A contractor's safety manager discovers that the company's OSHA 300 log shows a Total Recordable Incident Rate (TRIR) of 8.5, which is significantly above the industry average of approximately 3.0 for commercial construction. What business consequence does a high TRIR create beyond the direct cost of injuries?

- A. A high TRIR has no business consequence beyond the direct medical costs of the injuries themselves

B. A high TRIR may disqualify the contractor from bidding on projects that require a maximum TRIR below a specified threshold (many owners and GCs require TRIR below 4.0 or 5.0), may increase workers' compensation premiums through a higher EMR, may increase OSHA inspection frequency, and may damage the company's reputation with clients and sureties

C. A high TRIR improves the company's insurance rates because insurers reward companies with more claims

D. A high TRIR is relevant only for government contractors and has no impact on private commercial work

45. Under Alabama law, a contractor must carry certain insurance coverages before commencing work on a construction project. Which of the following insurance types is NOT typically required by Alabama law or standard construction contracts?

A. Flood insurance for the contractor's home office building, which is a personal property coverage not related to construction project requirements

B. Commercial general liability insurance covering thirdparty bodily injury and property damage claims

C. Workers' compensation insurance for employers meeting the 5employee threshold in Alabama

D. Automobile liability insurance for vehicles used in construction operations meeting state minimums

46. A contractor is reviewing a subcontract agreement and notices a clause requiring the subcontractor to provide a "waiver of subrogation" on the subcontractor's insurance policies. What does a waiver of subrogation accomplish?

A. A waiver of subrogation allows the subcontractor to cancel the insurance policy at any time

B. A waiver of subrogation increases the insurance deductible on the subcontractor's policy by 50%

C. A waiver of subrogation prevents the subcontractor's insurance company from pursuing recovery against the general contractor or owner after paying a claim on behalf of the subcontractor — it reduces intraproject litigation by preventing the insurer from suing other project participants to recoup its losses

D. A waiver of subrogation eliminates all insurance coverage for the subcontractor's scope of work

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

47. Under OSHA's construction safety standards, a contractor must provide ladder safety training to all employees who use ladders on the construction site. What is the correct setup angle for a straight or extension ladder leaning against a wall?

- A. The base of the ladder should be placed at a distance equal to the full height of the ladder from the wall
- B. There is no recommended setup angle — the worker should lean the ladder at whatever angle feels comfortable
- C. The base of the ladder should be placed at a distance equal to half the ladder's working length from the wall
- D. The base of the ladder should be placed at a distance from the wall equal to onequarter of the ladder's working length (the 4to1 rule) — for every 4 feet of height, the base is 1 foot from the wall, creating a 75degree angle

48. A contractor is working on a commercial renovation project and discovers that floor tiles installed in the 1960s may contain asbestos. Under OSHA's asbestos standard for the construction industry (29 CFR 1926.1101), what must the contractor do before disturbing these tiles?

- A. The contractor may remove the tiles immediately using standard demolition methods without testing
- B. The contractor must presume the tiles contain asbestos (presumed asbestoscontaining material or PACM for flooring installed before 1981) unless testing by a certified laboratory confirms they are asbestosfree — if asbestos is present or presumed, the work must follow OSHA's asbestos construction standard
- C. The contractor may remove the tiles if all workers wear standard dust masks during the removal process
- D. Asbestos regulations do not apply to floor tiles regardless of the year they were installed or their composition

49. Under OSHA's electrical safety standards for construction (29 CFR 1926 Subpart K), what is the primary purpose of a lockout/tagout (LOTO) procedure?

- A. Lockout/tagout ensures that electrical circuits and equipment are deenergized and cannot be accidentally reenergized while workers are performing maintenance, repair, or construction activities on or near the equipment — it prevents electrocution and arc flash injuries from unexpected energization
- B. Lockout/tagout is a security procedure to prevent theft of electrical equipment from the construction site
- C. Lockout/tagout is a scheduling tool that reserves specific time slots for electrical work on the project
- D. Lockout/tagout is used only for locking the job trailer at the end of each work day for site security

50. A contractor is managing a construction project that generates wastewater from concrete washout, equipment cleaning, and dewatering operations. Under Clean Water Act regulations and ADEM requirements, how must this construction wastewater be managed?

- A. Construction wastewater may be discharged directly into any storm drain without treatment or permits
- B. Construction wastewater may be dumped on adjacent vacant property without the owner's permission
- C. Construction wastewater requires no management because the Clean Water Act exempts construction sites
- D. Construction wastewater must not be discharged into storm drains, waterways, or onto the ground without appropriate treatment and permits — concrete washout must be contained in designated washout areas, dewatering discharge must meet permit requirements, and all wastewater management must comply with the project's SWPPP and NPDES permit conditions

Practice Exam 4: Answer Key and Explanations

DOMAIN 1: LICENSING REQUIREMENTS (Questions 1–8)

1. A — The monetary limitation on an Alabama contractor's license applies to the licensable construction work, not necessarily ownerfurnished equipment or materials the contractor does not procure. The contractor should verify with the Board whether the \$950,000 construction

scope falls within the \$1,000,000 limit. Ownerfurnished items may be excluded from the licensable value depending on how the contract is structured.

2. C — Contracts entered into by an unlicensed person performing work that requires licensure are void and unenforceable under Alabama law. The unlicensed contractor cannot use the courts to collect payment, cannot file a mechanics' lien, and the other party may seek return of payments already made. This severe consequence reinforces the importance of maintaining a valid license.

3. B — The death of the qualifying party triggers an immediate obligation to notify the Board. The company may continue work on existing contracts during a transition period under limited conditions, but may not bid on or enter into new contracts until a replacement qualifying party is approved. The Board typically allows a reasonable timeframe for the company to identify and qualify a replacement.

4. D — Failure to renew the license by the deadline causes the license to lapse. The contractor must cease bidding and entering into new contracts. Reinstatement may require payment of back fees, late penalties, and potentially reexamination depending on how long the license has been lapsed. Continuing to work with a lapsed license carries the same penalties as unlicensed contracting.

5. C — A general contractor has a duty to verify that all subcontractors hold appropriate licenses for their scope of work when the work exceeds the \$50,000 licensing threshold. Knowingly engaging an unlicensed subcontractor may result in disciplinary action against the general contractor's license, including suspension or revocation.

6. A — The Board may investigate upon receipt of a written, sworn complaint or upon its own initiative when it has reason to believe a violation has occurred. The Board's investigative authority is broad and covers any potential violation of the licensing law or Board regulations. Investigations may result in formal charges and disciplinary proceedings.

7. D — Reciprocity streamlines but does not eliminate the application process. The Mississippi contractor must still apply for an Alabama license, pay the required fees, meet Alabama's financial qualifications, and comply with any examination requirements not covered by the reciprocal agreement. Reciprocity provides a pathway, not automatic authorization.

8. B — Abandonment is the contractor's unjustified cessation of work for a prolonged period without legitimate contractual basis. It includes failing to prosecute the work diligently, leaving the project incomplete without cause, and refusing to return to correct defective work. Abandonment is grounds for license revocation and may also constitute a material breach of contract.

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

9. C — An allowance is included in the bid at the stated amount. When the actual cost is determined during construction, the contract price is adjusted by change order for the difference between the allowance and the actual cost, plus the contractor's applicable markup for overhead and profit on the difference. The contractor does not retain unused allowance funds.

10. A — To achieve a 5% net profit on the total contract price, the contractor divides the total cost (\$912,000) by 0.95 (1.00 minus the desired profit percentage), yielding approximately \$960,000. This "markup on price" method ensures the profit percentage is calculated on the selling price rather than the cost, which is the standard method for calculating profit margin.

11. D — Contractor C's bid is nonresponsive because its \$1,000,000 license limitation does not authorize a \$1,100,000 project. With Contractor C disqualified, Contractor A at \$1,200,000 becomes the lowest responsive, responsible bidder and should receive the award under Alabama's Competitive Bid Law.

12. B — The selfperform versus subcontract decision involves multiple factors beyond price: risk allocation, workforce availability, scheduling flexibility, the subcontractor's qualifications and track record, the impact on bonding capacity, and the contractor's supervisory resources. The \$15,000 savings from subcontracting must be weighed against the subcontractor performance risk.

13. A — A contractor may withdraw a sealed bid before the bid opening by submitting a written notice of withdrawal to the bidreceiving authority. If the submission deadline has not passed, the contractor may submit a corrected bid. After bid opening, withdrawal is more restricted and may require forfeiture of the bid bond.

DOMAIN 3: LIEN LAWS (Questions 14–15)

14. C — The critical factor for lien rights is whether the contractor held a valid license at the time the work was performed. If the contractor was properly licensed during the construction period, the lien rights for that work are generally preserved even if the license subsequently expires before the lien is filed. The licensing status during performance is the determining factor.

15. D — Under Alabama's mechanics' lien law, even remote claimants (such as material suppliers several tiers removed from the property owner) may file a lien against the owner's property where the improvement was made, provided they have complied with the preliminary notice requirements. The lien attaches to the improved property, not to the intermediate contractors' assets.

DOMAIN 4: FINANCIAL MANAGEMENT (Questions 16–20)

16. A — A backlog of \$3,000,000 against an annual revenue capacity of \$4,000,000 represents approximately 9 months of contracted work. This provides revenue visibility and business continuity but requires careful cash flow planning. The contractor must fund payroll, materials, and subcontractors during the billing cycle gap before owner payments are received.

17. C — Alabama's prompt payment provisions and standard construction practice require contractors to pay subcontractors within a specified number of days after receiving the owner's payment. Unreasonable withholding of subcontractor payments may trigger statutory interest penalties, mechanics' lien claims against the owner's property, and payment bond claims.

18. B — When billings (\$300,000) exceed costs incurred (\$250,000), the contractor has overbilled by \$50,000. This appears as a current liability on the balance sheet called "billings in excess of costs and estimated earnings." It represents money received for work not yet performed — essentially an advance payment that must be earned through future work.

19. D — Retainage of 10% on \$900,000 in gross billings equals \$90,000 withheld. The contractor's net received amount is \$900,000 minus \$90,000 = \$810,000. The \$90,000 retainage gap must be funded from working capital or a line of credit until retainage is released at or after substantial completion.

20. C — A quick ratio below 1.0 means the company's most liquid assets (cash plus accounts receivable) are insufficient to cover current liabilities. At 0.8, the company has only \$0.80 in liquid assets for every \$1.00 in current obligations, indicating potential difficulty meeting shortterm financial commitments without additional borrowing or asset conversion.

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

21. B — Form 1099NEC reports the total nonemployee compensation paid to an independent contractor during the calendar year. No taxes are withheld from independent contractor payments because independent contractors are responsible for paying their own income taxes and selfemployment taxes (Social Security and Medicare). The \$600 threshold triggers the reporting requirement.

22. D — The EMR increase from 0.85 to 1.15 represents a swing of approximately 35% in the workers' compensation premium (from 15% below average to 15% above). Additionally, many project owners and general contractors require subcontractors to maintain an EMR below 1.0, so an EMR of 1.15 may disqualify the company from bidding on safetyconscious projects.

23. C — The Alabama Department of Labor administers the state's unemployment insurance program, including employer registration, quarterly wage reporting, tax collection, experience rating, and benefit claims processing. Employers must register with the Department and file quarterly reports of wages paid to each employee.

24. A — The per occurrence limit (\$1,000,000) is the maximum payment for any single claim or incident. The general aggregate limit (\$2,000,000) is the total maximum for all claims combined during the entire policy period. Once the aggregate is exhausted through multiple claims, no further coverage is available until the policy renews, leaving the contractor uninsured.

25. B — Form W4 is completed by the employee to indicate filing status (single, married, head of household) and claim withholding adjustments. The employer uses this information along with IRS withholding tables to calculate the correct amount of federal income tax to withhold from each paycheck throughout the year.

26. D — DavisBacon prevailing wage requirements apply to federally funded or federally assisted construction projects exceeding \$2,000. The contractor must pay all workers at least the prevailing wage rates and fringe benefits determined by the U.S. Department of Labor for the specific geographic area and trade classifications.

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

27. A — The Equal Pay Act provides four statutory exceptions that may justify pay differentials between sexes: a seniority system, a merit system, a system measuring earnings by quantity or quality of production, and any factor other than sex. If the employer can demonstrate that the pay difference is based on one of these factors, the differential is legally permissible.

28. C — An impaired worker on a construction site is an immediate danger to themselves and everyone around them. The superintendent must remove the worker from all duties immediately, prevent equipment operation, and follow the company's substance abuse policy. Allowing an impaired worker to continue working violates OSHA's general duty clause.

29. D — COBRA qualifying events include termination (voluntary or involuntary except for gross misconduct), reduction in hours that causes loss of coverage, employee's death, divorce or legal separation, and the employee or spouse becoming eligible for Medicare. The employee or dependent may continue coverage for 18 to 36 months depending on the qualifying event.

30. D — OSHA's construction safety standards cover all employees exposed to construction site hazards, regardless of their job title or primary function. Field workers, supervisors, engineers, safety personnel, and even administrative staff who visit construction sites are covered by 29 CFR 1926 when they are exposed to construction hazards.

31. C — ERISA requires retirement plan fiduciaries to manage the plan solely in the interest of participants, maintain transparency through required disclosures (summary plan descriptions, annual reports), ensure the plan does not discriminate in favor of highly compensated employees, and follow established vesting schedules. ERISA protects employees' retirement benefits.

DOMAIN 7: PROJECT MANAGEMENT (Questions 32–34)

32. A — A resource-loaded CPM schedule assigns specific labor crews, equipment, and material quantities to each activity. This enables identification of resource conflicts (two activities requiring the same crane simultaneously), workload balancing, labor demand forecasting, and material delivery coordination. Resource loading transforms the schedule from a time plan into a comprehensive production plan.

33. D — A successful differing site conditions claim requires the contractor to prove that actual conditions differ materially from those represented in the contract documents or ordinarily expected, that the conditions were not reasonably foreseeable, that the contractor provided timely notice, and that the differing conditions caused quantifiable additional cost and schedule impact.

34. B — The SPI equals earned value divided by planned value: $\$360,000 \div \$400,000 = 0.90$. An SPI below 1.0 indicates the project is behind schedule — only 90% of the planned work has been completed. The project team must identify the cause of the schedule shortfall and implement recovery measures to bring the project back on track.

DOMAIN 8: CONTRACT MANAGEMENT (Questions 35–40)

35. C — Mutual rescission occurs when both parties voluntarily agree to cancel the contract and release each other from further obligations. The parties typically negotiate settlement terms including payment for work completed, disposition of materials onsite, release of liens and bond claims, and any other outstanding obligations.

36. A — Under a mutual waiver of consequential damages, the contractor waives claims for indirect losses such as lost profits on other projects, damage to business reputation, and loss of bonding capacity. The contractor retains the right to claim direct damages — the actual cost of the changed or delayed work, extended general conditions, and similar direct financial impacts.

37. D — When the owner directs acceleration, the acceleration constitutes a change to the contract. The contractor is entitled to the resulting additional costs (overtime premiums, additional crews, expedited deliveries, reduced productivity from fatigue) through a change order. The owner bears the cost of acceleration that the owner directed.

38. B — Express warranties are explicitly stated in the contract (the contractor warrants workmanship for one year). Implied warranties arise by operation of law without being written in the contract (the implied warranty that work will be performed in a workmanlike manner). Both types of warranties create legally enforceable obligations.

39. C — When existing conditions differ materially from what was represented in the bid documents and could not have been reasonably discovered during the prebid investigation, the contractor may have a claim for a change order covering additional cost and time. The contractor must provide timely written notice and document the conditions and their impact.

40. D — Before terminating for cause, the owner must provide written notice specifying the default and giving the contractor a reasonable cure period to correct the deficiency. If the contractor fails to cure within the specified period, the owner may proceed with termination. Terminating without proper notice and cure opportunity may convert the termination to a wrongful termination.

DOMAIN 9: BUSINESS ORGANIZATION (Questions 41–42)

41. A — Forming a corporation in Alabama requires filing articles of incorporation with the Secretary of State, designating a registered agent, adopting bylaws, issuing stock, electing directors and officers, obtaining an EIN from the IRS, and registering with the Alabama Department of Revenue. Each step is a legal requirement for establishing a valid corporate entity.

42. C — LLC member disputes are typically resolved according to the operating agreement, which is the governing document for the LLC. A well-drafted operating agreement includes provisions for voting rights, decisionmaking authority, dispute resolution mechanisms, buyout procedures, and dissolution provisions. Without an operating agreement, Alabama's LLC statutes provide default rules.

DOMAIN 10: RISK MANAGEMENT (Questions 43–46)

43. D — The one-year warranty establishes a strict obligation to repair defects at no cost, but the owner's broader legal rights extend beyond the warranty. Alabama's six-year statute of

limitations for written contracts and the statute of repose provide additional time for latent defect claims. The warranty period and the statute of limitations serve different legal functions.

44. B — A high TRIR creates multiple business consequences: disqualification from projects requiring low safety metrics, increased workers' compensation premiums through a higher EMR, increased OSHA inspection targeting, difficulty obtaining bonding, damaged reputation with owners and general contractors, and potential loss of prequalification status with major clients.

45. A — Flood insurance for the contractor's home office is a personal property coverage unrelated to construction project requirements. CGL, workers' compensation, and automobile liability are standard requirements for construction operations. Builder's risk, umbrella liability, and professional liability may also be required depending on the project and contract terms.

46. C — A waiver of subrogation prevents the subcontractor's insurance company from suing the general contractor or owner to recover amounts paid on a claim. Without this waiver, the insurer could pay the subcontractor's claim and then pursue the GC or owner to recoup its losses, creating costly litigation among project participants.

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

47. D — The 4to1 rule requires the base of a straight or extension ladder to be placed one foot from the wall for every four feet of working length. This creates a 75degree angle that provides optimal stability. A ladder set too steep risks falling backward; a ladder set too flat risks the base sliding out.

48. B — OSHA's asbestos standard presumes that floor tiles installed before 1981 contain asbestos (PACM — presumed asbestoscontaining material) unless laboratory testing confirms otherwise. If asbestos is present or presumed, the work must follow OSHA's asbestos construction standard including exposure monitoring, engineering controls, and worker protection.

49. A — Lockout/tagout ensures that electrical circuits and equipment are completely deenergized and physically locked in the off position before workers perform maintenance, repair, or construction activities. The procedure prevents accidental reenergization that could cause electrocution or arc flash injuries. Tags provide visual warning, and locks provide physical prevention.

50. D — Construction wastewater must be managed in compliance with the SWPPP and NPDES permit conditions. Concrete washout must be contained in designated areas, dewatering discharge must meet permit requirements (often requiring settling or filtering), and no construction wastewater may be discharged into storm drains or waterways without proper treatment and authorization.