

PRACTICE EXAM 6: 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 licensed general contractor in Alabama hires a specialty electrical subcontractor to install the complete electrical system on a \$400,000 commercial project. The electrical subcontract value is \$85,000. The electrical subcontractor holds only a municipal business license and has never applied for an Alabama state contractor's license. Under Alabama licensing law, what is the legal status of this arrangement?

- A. The arrangement is legal because subcontractors are exempt from all state licensing requirements in Alabama
- B. The electrical subcontractor is in violation of Alabama licensing law because the \$85,000 subcontract exceeds the \$50,000 licensing threshold, and the general contractor may face disciplinary action for engaging an unlicensed subcontractor
- C. The municipal business license is equivalent to a state contractor's license and fully authorizes the work
- D. The arrangement is legal because the general contractor's license covers all subcontractors on the project

2. Under Alabama law, the Licensing Board for General Contractors has established specific categories of license classifications based on the type of construction work performed. A contractor who specializes exclusively in highway and bridge construction would apply for which type of license classification?

- A. A residential building contractor classification that covers all residential and light commercial construction
- B. A general building contractor classification that covers all types of building construction including highways
- C. A mechanical contractor classification that covers all site work and infrastructure construction projects
- D. A highway and public works contractor classification specifically designated for highway, bridge, and heavy civil construction work

3. A contractor's license expires on September 30. The contractor submits the renewal application and fee on October 15 — fifteen days after the expiration date. Under Alabama licensing regulations, what is the consequence of this late renewal?

- A. The contractor must pay any applicable late renewal fees or penalties, and the license may have been in a lapsed status during the 15day gap — work performed during the lapsed period constitutes unlicensed contracting, and the Board may impose additional conditions for reinstatement
- B. There is no consequence because Alabama provides an automatic 90day grace period for all renewals
- C. The license is automatically renewed retroactively to September 30 with no gap in coverage or penalty
- D. The contractor must retake both licensing examinations regardless of how short the lapse period was

4. Under Alabama law, a joint venture between two licensed contractors may bid on and perform construction projects. What licensing requirement applies to the joint venture entity itself?

- A. Joint ventures are prohibited under Alabama licensing law and two contractors may never collaborate
- B. Only one of the joint venture partners needs to hold a valid license for the joint venture to operate
- C. The joint venture must either obtain its own contractor's license or verify that each joint venture partner holds a license with a monetary limitation adequate to cover the partner's share

of the project — the specific requirements depend on the Board's regulations governing joint ventures

D. Joint ventures automatically receive a temporary license valid for one project with no application required

5. A contractor holds an Alabama general contractor's license and wants to expand operations into commercial plumbing as a specialty trade. Under Alabama licensing regulations, what must the contractor do to legally perform plumbing work?

A. The general contractor's license automatically covers all specialty trades including plumbing work

B. The contractor must obtain the appropriate plumbing license or certification required by Alabama law in addition to the general contractor's license, as specialty trades may have separate licensing requirements administered by different regulatory authorities

C. The contractor needs only a verbal approval from the Licensing Board to add plumbing to the existing license

D. No additional licensing is required because any licensed contractor may selfperform all trades in Alabama

6. Under Alabama law, the Licensing Board may place a licensed contractor on "probation" as a disciplinary action. What does probationary status mean for the contractor's ability to operate?

A. Probation permanently revokes the contractor's license with no possibility of reinstatement at any time

B. Probation has no practical effect and the contractor operates without any restrictions or monitoring

C. Probation suspends the contractor's license completely with no work permitted during the probation period

D. Probation allows the contractor to continue operating under specific conditions and restrictions imposed by the Board — violations of the probationary terms may result in more severe disciplinary action including suspension or revocation of the license

7. A contractor applies for an Alabama license and lists construction experience gained while working as an employee of another licensed contractor. Under Alabama licensing regulations, is employee experience acceptable to meet the experience requirements?

A. Yes, experience gained as an employee of a licensed contractor is generally acceptable toward the experience requirement, provided the applicant can demonstrate that the experience involved meaningful participation in construction operations at a supervisory or management level

B. Only experience as a business owner counts toward the licensing requirement with no employee credit

C. Employee experience is accepted only if it was gained in a state other than Alabama

D. Experience as an employee is never accepted under any circumstance for Alabama licensing purposes

8. Under Alabama licensing law, what is the consequence for a licensed contractor who knowingly submits a false or fraudulent insurance certificate to a project owner as proof of coverage?

A. Submitting a false insurance certificate has no licensing consequence because insurance is private

B. The contractor receives an automatic 7day suspension with no other disciplinary action permitted

C. Submitting a false or fraudulent insurance certificate is grounds for disciplinary action by the Board, including potential license revocation — it may also constitute fraud under Alabama criminal law and expose the contractor to civil liability if a claim arises and the purported coverage does not exist

D. The contractor must only replace the certificate with a valid one within 30 days with no other penalty

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

9. A contractor is preparing a bid for a commercial project and the specifications include a "unit price" section for certain earthwork items. The bid form lists "rock excavation" at an estimated quantity of 200 cubic yards. The contractor prices this item at \$75.00 per cubic yard. During construction, the actual rock excavation quantity is only 50 cubic yards. Under unit price contracting, how is the contractor compensated?

A. The contractor is paid the original estimated total of \$15,000 regardless of the actual quantity encountered

B. The contractor is paid for the estimated 200 cubic yards even though only 50 were actually excavated

C. The contractor must refund the entire unit price amount because the estimated quantity was inaccurate

D. The contractor is paid for the actual quantity at the agreed unit price: $50 \text{ CY} \times \$75.00 = \$3,750$ — unit prices are applied to actual quantities, and the contractor bears the risk of lower revenue when actual quantities are less than estimated

10. A contractor is evaluating a project's "contingency" during the estimating phase. The estimator adds a 3% contingency to the total estimated cost before applying the profit markup. What purpose does the estimating contingency serve?

A. The contingency covers the contractor's home office overhead and replaces the overhead markup entirely

B. The contingency provides a reserve for minor cost uncertainties, estimating imprecision, and unforeseen conditions that are likely but not specifically identified — it is the estimator's allowance for the inherent imprecision of the estimating process

C. The contingency is the contractor's net profit margin and no separate profit markup is applied

D. The contingency is required by Alabama law to be included in every bid at exactly 3% of direct costs

11. A contractor receives an "invitation for bids" (IFB) from a public school district in Alabama for a \$3,000,000 gymnasium addition. The IFB states that bids will be evaluated on the basis of "lowest responsive, responsible bidder." Under Alabama's Competitive Bid Law, what does "responsible" mean in this context?

A. A responsible bidder is one who submits the lowest price regardless of any other qualifications or factors

B. A responsible bidder submits a mathematically perfect bid with no rounding or estimation in any line item

C. Responsibility is determined solely by the bidder's political connections with the school board members

D. A responsible bidder has the financial capacity, technical expertise, equipment, workforce, and past performance record to successfully complete the project — a bidder may submit the lowest price but still be deemed nonresponsible if the bidder lacks the ability to perform

12. A contractor is performing a quantity takeoff for a concrete slab and calculates that 150 cubic yards of concrete are needed. The contractor adds a 5% waste factor. What is the total quantity of concrete the contractor should order?

A. 150 cubic yards because waste factors are not applied to concrete orders in commercial construction

B. 142.5 cubic yards because the waste factor is subtracted from the calculated quantity to save costs

C. 157.5 cubic yards ($150 \text{ CY} \times 1.05 = 157.5 \text{ CY}$) — the 5% waste factor accounts for spillage, overexcavation, uneven subgrade, and other factors that cause actual concrete usage to exceed the theoretical calculated volume

D. 225 cubic yards because the waste factor for concrete is always 50% of the calculated quantity

13. A contractor is preparing a bid and the specifications include "alternates" — both additive and deductive. The instructions to bidders state that alternates will be accepted in numerical order until the owner's budget is exhausted. Under standard bidding practice, why must the contractor price each alternate carefully and independently?

A. Alternates have no effect on the contract award and are priced only for the contractor's internal records

B. All alternates must be priced at exactly the same amount regardless of the actual scope difference

C. The contractor should price alternates at inflated amounts to maximize profit if the owner accepts them

D. Each alternate must reflect the actual cost difference for that specific scope change because the order of acceptance affects which combination of alternates the owner selects — mispricing an alternate could result in either an unprofitable addition or an unattractive deduction that the owner rejects

DOMAIN 3: LIEN LAWS (Questions 14–15)

14. Under Alabama's mechanics' lien law, a general contractor's lien claim is limited to the amount owed under the contract with the property owner. If the general contractor has been

paid in full by the owner, can the general contractor still file a mechanics' lien for unpaid change order work that the owner disputes?

A. No, a mechanics' lien may only be filed for amounts covered by the original contract and never for disputed change orders

B. Yes, the contractor may file a lien for the disputed change order amount if the contractor has a goodfaith belief that the work constitutes a valid addition to the contract and the change order amount is legitimately owed — the lien secures the disputed amount while the parties resolve the claim

C. The contractor may file a lien only after winning a lawsuit establishing that the change order is valid

D. Mechanics' liens are available only for the original contract amount and all change orders are excluded

15. Under Alabama law, the priority of a mechanics' lien relative to other liens on the same property (such as a mortgage) is determined by specific rules. In general, how does the priority of a mechanics' lien relate to a construction mortgage recorded before work began?

A. A mechanics' lien generally relates back to the date of commencement of the improvement on the property — if the mortgage was recorded before work commenced, the mortgage typically has priority over the mechanics' lien, though specific Alabama statutes may provide exceptions

B. Mechanics' liens always have absolute priority over all other liens including previously recorded mortgages

C. The priority is determined by the alphabetical order of the lien holders' last names

D. Lien priority has no legal significance and all lien holders receive equal payment regardless of recording date

DOMAIN 4: FINANCIAL MANAGEMENT (Questions 16–20)

16. A contractor is managing a project where the owner requests "cost transparency" by requiring the contractor to submit detailed cost reports showing labor hours, material costs, equipment charges, and subcontractor invoices. Under what type of contract arrangement is this level of cost transparency most common?

- A. Lump sum (fixed price) contracts always require full cost transparency with detailed backup documentation
- B. Unit price contracts require the most cost transparency because every unit must be individually documented
- C. Cost-plus fee contracts require the most cost transparency because the owner pays actual costs and has the right to verify that all charges are legitimate, properly documented, and attributable to the project
- D. No contract type requires cost transparency and owners never have the right to see cost backup

17. A contractor's financial advisor recommends maintaining a minimum "current ratio" of 1.5:1 for the construction company. The company currently has current assets of \$300,000 and current liabilities of \$250,000. What is the current ratio, and does it meet the advisor's recommendation?

- A. The current ratio is 0.83 and does not meet the 1.5:1 recommendation
- B. The current ratio is 1.2:1 ($\$300,000 \div \$250,000 = 1.2$), which falls below the recommended 1.5:1 minimum — the company should increase current assets or reduce current liabilities to improve its short-term financial position
- C. The current ratio is 2.0:1 and exceeds the 1.5:1 recommendation
- D. The current ratio cannot be calculated from the information provided without the company's annual revenue

18. A contractor completes a project and discovers that the actual gross profit margin was 4% compared to the estimated 12% in the original bid. What should the contractor do to prevent this profit erosion on future projects?

- A. The contractor should raise prices by 50% on all future bids to compensate for the profit shortfall
- B. The contractor should stop bidding on commercial projects entirely and switch to residential construction
- C. The profit erosion was unavoidable and no corrective action is possible for future estimating improvement

D. The contractor should perform a detailed postproject analysis comparing estimated versus actual costs for every major category (labor, materials, equipment, subcontractors, general conditions) to identify the specific sources of the profit erosion and adjust estimating procedures, productivity assumptions, and project management practices for future bids

19. A contractor's accountant explains that the company should track "overhead absorption rate" — the percentage of home office overhead that is recovered through project markups. If the company's annual home office overhead is \$400,000 and the total markup collected from all projects during the year is \$350,000, what is the overhead absorption rate?

A. The overhead absorption rate is 87.5% ($\$350,000 \div \$400,000$), meaning the company recovered only 87.5% of its home office overhead through project markups — the remaining 12.5% (\$50,000) represents unabsorbed overhead that directly reduces the company's net profit

B. The overhead absorption rate is 100% because the company always fully absorbs all overhead costs

C. The overhead absorption rate is 114% because it is calculated by dividing overhead by markup collected

D. The overhead absorption rate cannot be calculated and has no practical meaning for construction companies

20. A contractor reviews the company's "accounts receivable aging report" and discovers that 35% of total receivables are more than 60 days past due. The company's bank is reviewing the contractor's line of credit and requests this aging report. Why does the bank care about the aging of accounts receivable?

A. The bank has no interest in accounts receivable aging and requests the report only for filing purposes

B. Aged receivables have no impact on the contractor's borrowing capacity or creditworthiness evaluation

C. The bank evaluates accounts receivable aging because heavily aged receivables indicate collection risk — receivables over 60 days are less likely to be collected, reducing the quality of the company's current assets and potentially affecting the bank's willingness to extend or maintain the line of credit

D. The bank requests the aging report only to verify that the contractor is billing the correct sales tax rate

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

21. Under Alabama law, an employer who fails to secure required workers' compensation insurance coverage may be subject to an injunction. What does this injunction authorize?

A. The injunction requires the employer to increase wages by 25% for all employees as a penalty

B. The injunction requires the employer to hire a fulltime safety director within 24 hours of issuance

C. The injunction authorizes the employer to continue operating without insurance for an additional 90 days

D. The injunction may order the employer to cease all business operations until the required workers' compensation insurance coverage is obtained and proof of coverage is provided to the court

22. A contractor employs both salaried project managers (classified as exempt under FLSA) and hourly field workers (classified as nonexempt). Under FLSA, what test determines whether a salaried employee qualifies for the "executive exemption" from overtime pay?

A. The executive exemption requires that the employee receives a minimum salary at or above the threshold set by the Department of Labor, has primary duties of managing the enterprise or a recognized department, customarily directs the work of two or more other employees, and has authority to hire or fire (or recommendations carry particular weight)

B. Any employee who receives a salary instead of hourly wages is automatically exempt from overtime

C. The executive exemption applies to all employees with "manager" in their job title regardless of duties

D. The executive exemption applies only to the company's CEO and no other management employees

23. A contractor is reviewing the company's insurance program and the insurance broker recommends an "inland marine" insurance policy. What type of property does inland marine insurance typically cover for a construction contractor?

- A. Inland marine covers only watercraft used for marine construction projects on rivers and lakes
- B. Inland marine covers the contractor's home office building and permanent business property
- C. Inland marine covers tools, equipment, and materials in transit or at temporary locations (such as construction sites) that are not covered by standard commercial property insurance — it protects portable property that moves between job sites
- D. Inland marine covers only imported construction materials shipped from overseas manufacturers

24. Under federal tax law, a contractor must determine whether to treat an expenditure as a "current expense" (deductible in the year incurred) or a "capital expenditure" (depreciated over the asset's useful life). Under IRS rules, which of the following is typically treated as a capital expenditure?

- A. The cost of office supplies purchased for the company's administrative office during the fiscal year
- B. The purchase of a new excavator costing \$250,000 — because the equipment has a useful life extending beyond one year and exceeds the IRS threshold for immediate expensing, it is typically capitalized and depreciated over its useful life under the Modified Accelerated Cost Recovery System (MACRS)
- C. The monthly rent payment for the company's office space during the current fiscal year
- D. The cost of fuel purchased for the company's fleet vehicles during the current billing period

25. A contractor's workers' compensation insurance carrier conducts an annual premium audit at the end of the policy period. What is the purpose of this audit?

- A. The audit determines the contractor's profit margin and adjusts the premium based on profitability
- B. The audit verifies the contractor's compliance with OSHA recordkeeping requirements for the year
- C. The audit reviews the contractor's estimating procedures to improve future bid accuracy on projects
- D. The audit compares the actual payroll by classification code against the estimated payroll used to calculate the initial premium — if actual payroll was higher than estimated, the

contractor owes additional premium; if lower, the contractor receives a refund of the overpayment

26. Under Alabama law, employers must withhold state income tax from employee wages. What state agency administers Alabama's individual income tax withholding program?

A. The Alabama Department of Revenue administers the state income tax withholding program, including employer registration, withholding tables, filing requirements, and deposit schedules for withheld state income taxes

B. The Alabama Department of Labor administers state income tax withholding for all construction employers

C. The Alabama Licensing Board for General Contractors administers state income tax withholding for contractors

D. State income tax withholding is administered exclusively by the IRS with no statelevel agency involvement

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

27. Under the Genetic Information Nondiscrimination Act (GINA), employers are prohibited from using genetic information in employment decisions. In the construction industry context, what specific practice does GINA prohibit?

A. GINA prohibits employers from using hard hats made from genetically modified materials on construction sites

B. GINA prohibits only the genetic testing of building materials for structural analysis purposes

C. An employer may not request, require, or use genetic information (including family medical history) in making employment decisions such as hiring, firing, promotion, or job assignment — for example, an employer may not refuse to hire a worker because the worker's parent had a genetic predisposition to back problems

D. GINA applies only to the pharmaceutical and healthcare industries with no construction application

28. A contractor terminates an employee and the employee's final paycheck includes accrued but unused vacation time. Under Alabama law, is the employer required to pay out unused vacation time upon termination?

A. Alabama law requires all employers to pay triple the value of unused vacation upon termination

B. Alabama law mandates payment of unused vacation time within 24 hours of termination for all employees

C. Alabama law requires all employers to donate unused vacation time to the state unemployment fund

D. Alabama does not have a state law requiring payment of unused vacation time upon termination — however, if the employer has an established policy or practice of paying out unused vacation, the employer must follow its own policy consistently to avoid claims of discrimination or breach of contract

29. Under OSHA's Hazard Communication standard (HazCom), the contractor must maintain a written hazard communication program. What are the key components of a written HazCom program?

A. Only a list of the contractor's preferred chemical suppliers with their contact information and pricing

B. A list of all hazardous chemicals present on the site, the location and availability of safety data sheets (SDS) for each chemical, the labeling system used to identify chemical hazards, and the employee training program for safe chemical handling — the program must be sitespecific and accessible to all workers

C. Only the name of the contractor's insurance company and the CGL policy number for reference

D. Only the OSHA poster displayed in the job trailer with no additional written program elements required

30. A contractor hires a 17yearold high school student as a summer laborer for a commercial construction project. Under the Fair Labor Standards Act's child labor provisions, what restrictions apply to this worker?

A. A 17yearold may perform any construction task without restriction including operating heavy equipment and working at heights exceeding 30 feet above grade level

- B. A 17-year-old is prohibited from performing any work of any kind on a construction site under federal law
- C. A 17-year-old may work unlimited hours with no restrictions on the type of work performed in construction
- D. Only employees over 21 may work on commercial construction projects under any circumstances

31. Under the National Labor Relations Act, construction employers and unions may negotiate a "union security clause" requiring employees to join the union or pay union dues as a condition of employment. However, Alabama has enacted a specific state law that affects this arrangement. What Alabama law applies?

- A. Alabama's "closed shop" law requires all construction workers to join a union before being hired
- B. Alabama is a "right-to-work" state, meaning employees cannot be required to join a union or pay union dues as a condition of employment — while employers may negotiate union contracts, individual workers may choose whether to join the union or pay dues
- C. Alabama law requires all employers to recognize any union that requests recognition without an election
- D. Alabama has no laws affecting union membership requirements and follows federal law exclusively

DOMAIN 7: PROJECT MANAGEMENT (Questions 32–34)

32. A contractor is managing a commercial project and the architect issues a "punch list" identifying 85 items that must be corrected before the project achieves final completion. Under standard construction practice, what is the contractor's obligation regarding punch list completion?

- A. The contractor may ignore punch list items that cost less than \$500 each to correct without consequence
- B. The contractor must complete only 50% of the punch list items and the owner must accept the remainder

C. Punch list items are optional and the contractor receives full payment regardless of completion status

D. The contractor must correct all punch list items within a reasonable timeframe at no additional cost to the owner — punch list items are deficiencies in the contractor's work that must be remedied before the project achieves final completion and the remaining retainage is released

33. A contractor is tracking a project's schedule and identifies that a 10day delay to the mechanical roughin has consumed all available float on that activity path. The mechanical roughin is now on the critical path. What is the significance of this change from a noncritical to a critical activity?

A. The change from noncritical to critical has no scheduling significance and requires no management action

B. The activity automatically receives a 30day extension when it becomes critical under standard CPM rules

C. Any further delay to the mechanical roughin will now directly delay the project completion date because the activity has zero remaining float — the contractor must prioritize resources to this activity and may need to accelerate subsequent activities on this path to recover the lost time

D. The mechanical subcontractor automatically receives a bonus payment when their activity becomes critical

34. A contractor is implementing a quality assurance/quality control (QA/QC) program on a commercial building project. The specifications require the contractor to conduct "preinstallation conferences" for major building systems before work begins. What is the purpose of a preinstallation conference?

A. Preinstallation conferences are optional social events with no technical or quality control purpose

B. Preinstallation conferences are held only after the work is complete to review the final quality results

C. Preinstallation conferences are conducted only by the building inspector and do not involve the contractor

D. Preinstallation conferences for each major system before work begins ensure understanding of the specification requirements, review the approved submittals, coordinate the work sequence with other trades, clarify installation procedures, and establish quality benchmarks

DOMAIN 8: CONTRACT MANAGEMENT (Questions 35–40)

35. Under Alabama law, a contractor may have a duty to "mitigate damages" when the other party breaches the contract. What does the duty to mitigate require?

A. Mitigation requires the nonbreaching party to do nothing and wait for the breach to cause maximum damage

B. Mitigation requires the nonbreaching party to accept the breach and waive all claims without exception

C. Mitigation applies only to the breaching party and the nonbreaching party has no mitigation obligations

D. The nonbreaching party must take reasonable steps to minimize the damages resulting from the breach — for example, if the owner wrongfully terminates the contractor, the contractor must make reasonable efforts to find replacement work rather than sitting idle and accumulating maximum damages

36. A contractor signs a subcontract that includes a "scope of work exhibit" describing the subcontractor's responsibilities. During construction, the general contractor directs the subcontractor to perform work that is clearly outside the scope exhibit. Under standard subcontract provisions, what is the subcontractor's right?

A. The subcontractor must perform all directed work regardless of the scope exhibit with no right to additional compensation

B. The subcontractor is entitled to a change order for work that falls outside the defined scope — the scope exhibit establishes the boundary of the subcontractor's contractual obligations, and work beyond that boundary constitutes a change requiring additional compensation and potentially additional time

C. The subcontractor must file a lawsuit before performing any outofscope work directed by the GC

D. The scope exhibit is advisory only and the subcontractor must perform any work the GC directs at no cost

37. Under Alabama law, what is the effect of a "force majeure" clause in a construction contract when an unforeseeable event (such as a pandemic, earthquake, or government-imposed shutdown) prevents the contractor from performing?

A. A force majeure clause excuses the contractor from performance during the unforeseeable event and typically entitles the contractor to a time extension for the duration of the event — whether the contractor also receives monetary compensation depends on the specific language of the clause and the nature of the event

B. Force majeure clauses are not recognized under Alabama law and have no legal effect in the state

C. Force majeure automatically terminates the contract and releases both parties from all remaining obligations

D. Force majeure applies only to acts of war and does not cover natural disasters or government shutdowns

38. A contractor receives a "notice of claim" from the project owner alleging that the contractor's work is defective. Under standard contract provisions and Alabama law, what is the contractor's right before the owner hires a third party to correct the alleged defects?

A. The contractor has no rights and the owner may hire a replacement contractor immediately without notice

B. The owner may deduct the repair cost from the final payment without giving the contractor any opportunity

C. The contractor typically has the right to inspect the alleged defects and the opportunity to cure (correct) the defective work within a reasonable timeframe before the owner engages a third party — denying the contractor this right may limit the owner's ability to recover the repair costs

D. The contractor must wait one year before responding to any defect claim from the project owner

39. A construction contract includes a clause stating that "time is of the essence." Under Alabama contract law, what is the legal significance of this clause?

A. The clause has no legal significance and is merely standard boilerplate language with no contractual effect

B. The clause applies only to the owner's payment obligations and not to the contractor's performance timeline

C. The clause simply suggests that the parties should try to work efficiently with no binding obligation

D. The "time is of the essence" clause makes compliance with the contract's schedule and deadlines a material term of the contract — failure to meet the specified completion date constitutes a material breach that may entitle the owner to terminate the contract and pursue damages

40. A contractor is reviewing a proposed contract that includes a "retention of rights" clause. Under Alabama contract law, what does this clause typically provide?

A. The clause grants the owner all intellectual property rights to the contractor's proprietary estimating software

B. A retention of rights clause preserves the parties' existing legal rights that are not specifically waived in the contract — it ensures that signing the contract does not inadvertently surrender rights that the parties did not intend to give up, such as statutory rights, tort claims, or rights under other agreements

C. The clause requires both parties to retain all construction documents for exactly 30 days after completion

D. The clause automatically extends the contract duration by one year beyond the original completion date

DOMAIN 9: BUSINESS ORGANIZATION (Questions 41–42)

41. A contractor operates as an LLC with a single member. Under federal tax law, how is a singlemember LLC taxed by default?

A. A singlemember LLC is taxed as a CCorporation with double taxation of all business profits

B. A singlemember LLC must always file as an SCorporation regardless of the owner's preference

C. A singlemember LLC is treated as a "disregarded entity" for federal tax purposes by default — the LLC's income and expenses are reported on the owner's personal income tax return (Schedule C), similar to a sole proprietorship, though the LLC retains its liability protection under state law

D. A singlemember LLC pays no federal taxes of any kind and is completely taxexempt in all circumstances

42. A contractor is considering converting from a CCorporation to an SCorporation. Under IRS rules, what limitation applies to SCorporation eligibility?

- A. An SCorporation may have an unlimited number of shareholders with no restriction on shareholder count or type
- B. An SCorporation must have at least 50 shareholders to qualify for SCorporation tax treatment
- C. SCorporations are prohibited in the construction industry by IRS regulation and sectorspecific tax rules
- D. There are no eligibility restrictions — any corporation may elect SCorporation status automatically

DOMAIN 10: RISK MANAGEMENT (Questions 43–46)

43. A contractor is developing a projectspecific safety plan and must address "confined space entry" procedures for workers who will enter a large underground utility vault during construction. Under OSHA's confined space regulations, what must the contractor do before any worker enters the vault?

- A. No special procedures are needed because underground utility vaults are not classified as confined spaces
- B. Only a hard hat and safety glasses are needed for confined space entry with no additional precautions
- C. The worker may enter freely as long as they hold their breath while inside the confined space
- D. The contractor must evaluate the vault for confined space hazards (oxygen deficiency, toxic atmospheres, engulfment), develop a written confined space entry permit program, test the atmosphere before entry, provide continuous ventilation and atmospheric monitoring, station an attendant outside the space, and ensure rescue capability is available

44. Under Alabama law, a contractor who causes environmental contamination during construction (such as a fuel spill that reaches a waterway) may face liability under multiple regulatory frameworks. Which agencies may take enforcement action against the contractor?

- A. Only the local municipality may take enforcement action with no state or federal agency involvement
- B. The Alabama Department of Environmental Management (ADEM), the U.S. Environmental Protection Agency (EPA), the U.S. Army Corps of Engineers (for wetlands and waterways), and potentially the Alabama Department of Public Health may all take enforcement action depending on the type and extent of the contamination
- C. Only the project owner may take action and no government agency has jurisdiction over construction spills
- D. Only OSHA may take enforcement action because environmental contamination is solely a worker safety issue

45. A contractor's risk management plan identifies "subcontractor default" as a highprobability risk on a large commercial project. What risk mitigation measures can the contractor implement to reduce the impact of subcontractor default?

- A. No mitigation measures exist for subcontractor default risk and the contractor must simply accept the risk
- B. The only mitigation measure is hiring the most expensive subcontractor on every trade package
- C. Requiring performance bonds from highrisk subcontractors, maintaining a list of qualified backup subcontractors, verifying subcontractor financial stability before award, including robust default provisions in the subcontract, monitoring subcontractor progress closely, and making timely payments to reduce financial stress on subcontractors
- D. The contractor should selfperform all work and never use subcontractors on any project under any condition

46. Under Alabama law, a contractor who performs work on a public project (governmentowned property) cannot file a mechanics' lien because liens cannot attach to government property. What alternative protection is available to contractors and subcontractors on public projects?

- A. On public projects, the payment bond required by law serves the same function as a mechanics' lien — unpaid contractors, subcontractors, and suppliers may make claims against the payment bond to recover amounts owed, providing financial protection equivalent to lien rights on private property

- B. No protection is available to contractors on public projects and all payment risk is borne by the contractor
- C. Contractors on public projects may file liens against the personal property of government officials
- D. The government entity must pay all contractors in advance before any work begins on public projects

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

47. Under OSHA's construction safety standards, electrical work on construction sites must comply with specific safety requirements. What is the minimum approach distance for unqualified workers near exposed energized electrical conductors operating at 600 volts or less?

- A. Unqualified workers may work directly adjacent to exposed energized conductors with no minimum distance
- B. 3 feet minimum approach distance for all unqualified workers near exposed conductors
- C. 50 feet minimum approach distance for all workers regardless of qualification near any electrical conductor
- D. Unqualified workers must maintain a safe distance from exposed energized conductors and should not approach closer than necessary — OSHA requires that exposed energized parts be guarded, enclosed, or isolated to prevent unqualified workers from contacting them, with specific distances based on voltage levels

48. A contractor is required to maintain records of employee safety training. Under OSHA regulations, what information must training records include?

- A. Only the employee's name and Social Security number with no other training details documented
- B. Training records must include the date of training, the topic or hazard covered, the name of the trainer, the names of all employees who attended, and documentation that the employees demonstrated understanding of the training content — these records must be retained and made available for OSHA inspection

- C. Only a copy of the training materials with no record of which employees attended the training session
- D. Training records are optional and OSHA does not require documentation of any safety training activities

49. Under EPA regulations, a contractor performing renovation work in a childoccupied facility (such as a day care center) built before 1978 must comply with the Lead Renovation, Repair, and Painting (RRP) Rule. What specific work practice requirement does the RRP Rule impose during the renovation?

- A. The RRP Rule requires only that workers wash their hands after handling painted surfaces during renovation
- B. The RRP Rule requires no specific work practices and the contractor may use standard renovation methods
- C. The RRP Rule requires only posting a warning sign at the building entrance during renovation activities
- D. The contractor must contain the work area to prevent dust and debris from spreading, prohibit practices that generate excessive lead dust (such as openflame burning of painted surfaces), clean the work area using HEPA vacuums and wet methods, and verify cleanup with a visual inspection and clearance testing

50. A contractor is working on a commercial project and must dispose of fluorescent light tubes removed during renovation. Under EPA regulations, fluorescent tubes are classified as "universal waste" because they contain mercury. How must universal waste fluorescent tubes be managed?

- A. Fluorescent tubes may be thrown in the regular construction dumpster with no special handling required
- B. Fluorescent tubes may be broken and disposed of in any sanitary landfill without restriction or documentation
- C. Fluorescent tubes must be handled as universal waste — stored in closed, labeled containers, accumulated for no more than one year, and transported to a permitted recycling or disposal facility that handles mercurycontaining lamps in compliance with EPA's universal waste regulations

D. Fluorescent tubes contain no hazardous materials and may be discarded in any manner chosen by the contractor

Practice Exam 6: Answer Key and Explanations

DOMAIN 1: LICENSING REQUIREMENTS (Questions 1–8)

1. B — The electrical subcontract value of \$85,000 exceeds Alabama's \$50,000 licensing threshold, requiring the subcontractor to hold a valid state contractor's license. A municipal business license does not satisfy the state licensing requirement. The general contractor may face disciplinary action for knowingly engaging an unlicensed subcontractor.

2. D — Alabama's Licensing Board offers specific license classifications for different types of construction work. Highway and public works contractors apply for a classification specifically designated for highway, bridge, and heavy civil construction. This classification is distinct from the general building contractor classification that covers commercial and residential building construction.

3. A — The 15day lapse means the contractor operated without a valid license during that period. Late renewal fees and penalties apply, and any work performed or contracts entered during the gap may be subject to the same consequences as unlicensed contracting. The Board may impose additional conditions for reinstatement depending on the circumstances.

4. C — Joint ventures involving licensed contractors must comply with the Board's requirements for joint venture licensing. Each partner must hold a license with adequate monetary limitation for their share of the work, or the joint venture entity must obtain its own license. The specific requirements are governed by the Board's regulations.

5. B — A general contractor's license does not automatically authorize all specialty trade work. Plumbing, electrical, and HVAC work may require separate licenses or certifications administered by different regulatory authorities in Alabama. The contractor must verify and obtain all required tradespecific licenses before performing specialty work.

6. D — Probation allows the contractor to continue operating under specific conditions and restrictions set by the Board. These conditions may include increased reporting, mandatory inspections, limitations on project size or type, or required completion of remedial education. Violating probationary terms triggers more severe consequences including suspension or revocation.

7. A — Experience gained as an employee of a licensed contractor is generally acceptable toward Alabama's licensing experience requirement. However, the applicant must demonstrate that the experience involved meaningful participation in construction operations at a supervisory or management level, not merely unskilled labor.

8. C — Submitting a false or fraudulent insurance certificate is a serious violation that may result in Board disciplinary action including license revocation. It may also constitute criminal

fraud under Alabama law. If a claim arises and the coverage does not exist, the contractor faces direct personal liability for all damages.

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

9. D — Under unit price contracting, the contractor is paid for actual quantities at the agreed unit price. At only 50 cubic yards versus the estimated 200, the payment is $50 \times \$75.00 = \$3,750$ rather than the estimated \$15,000. The contractor bears the revenue risk of lower quantities, just as the owner bears the cost risk of higher quantities.

10. B — An estimating contingency provides a reserve for minor uncertainties that are likely but cannot be specifically identified or quantified during the estimating process. It covers estimating imprecision, minor scope gaps, and small unforeseen conditions. The contingency is separate from both the overhead markup and the profit markup.

11. D — Under Alabama's Competitive Bid Law, a "responsible" bidder has the demonstrated capability to perform the work — financial capacity, technical expertise, adequate equipment and workforce, and a satisfactory track record. A bidder with the lowest price but inadequate capability may be deemed nonresponsible and bypassed in favor of the next lowest responsible bidder.

12. C — The 5% waste factor accounts for realworld losses including spillage, overexcavation, uneven subgrade, and pump line waste. The calculation is $150 \text{ CY} \times 1.05 = 157.5 \text{ CY}$. Ordering only the theoretical quantity results in a shortfall that requires an expensive shortload delivery to complete the pour.

13. D — Each alternate must accurately reflect the cost difference for its specific scope change because the owner accepts alternates sequentially until the budget is exhausted. Mispricing an alternate — either too high or too low — affects the competitiveness of the total bid and may cause the contractor to win unprofitable work or lose the project entirely.

DOMAIN 3: LIEN LAWS (Questions 14–15)

14. B — A contractor may file a mechanics' lien for disputed change order amounts if the contractor has a goodfaith basis for believing the work constitutes a valid addition to the contract and the amount is legitimately owed. The lien secures the disputed amount while the parties work toward resolution through the contract's dispute process.

15. A — Mechanics' lien priority generally relates back to the date work commenced on the improvement. A construction mortgage recorded before the commencement of work typically has priority over the mechanics' lien. However, specific Alabama statutes may provide exceptions or variations to this general rule depending on the circumstances.

DOMAIN 4: FINANCIAL MANAGEMENT (Questions 16–20)

16. C — Costplusfee contracts require the highest level of cost transparency because the owner pays actual costs and has the right to verify every charge. The contractor must maintain detailed records and provide backup documentation for all labor hours, material purchases, equipment charges, and subcontractor invoices. Lump sum contracts typically do not require this level of detail.

17. B — The current ratio is $\$300,000 \div \$250,000 = 1.2:1$. This falls below the recommended 1.5:1 minimum, indicating the company's current assets provide only a thin margin above current liabilities. The company should increase current assets (collect receivables, build cash reserves) or reduce current liabilities (pay down shortterm debt) to improve the ratio.

18. D — A detailed postproject analysis comparing estimated versus actual costs for every major category identifies the specific sources of profit erosion. The analysis may reveal underestimated labor hours, material waste, inadequate subcontractor pricing, unrecovered change order costs, or excessive general conditions. These findings directly improve future estimating accuracy.

19. A — The overhead absorption rate is $\$350,000 \div \$400,000 = 87.5\%$. The company recovered only 87.5% of its home office overhead through project markups, leaving \$50,000 unabsorbed. This \$50,000 directly reduces net profit. The company needs either more revenue volume or higher markup percentages to achieve 100% overhead absorption.

20. C — Banks evaluate accounts receivable aging because heavily aged receivables indicate collection risk. Receivables over 60 days are statistically less likely to be collected, reducing the quality and liquidity of the company's current assets. Poor receivable quality may cause the bank to reduce the borrowing base or decline to extend the line of credit.

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

21. D — An injunction for failure to carry required workers' compensation insurance may order the employer to cease all business operations until coverage is obtained and proof is provided to the court. This is one of the most severe consequences — the employer effectively cannot operate the business until insurance compliance is demonstrated.

22. A — The FLSA executive exemption requires meeting all four criteria: minimum salary at or above the DOL threshold, primary duties of managing the enterprise or a recognized department, customarily directing two or more employees, and having authority to hire/fire or having recommendations that carry particular weight. All criteria must be met simultaneously.

23. C — Inland marine insurance covers portable property that moves between locations — tools, equipment, and materials in transit or at temporary locations such as construction sites. Standard commercial property insurance covers only property at the permanent business location. Construction contractors need inland marine coverage because their valuable property constantly moves between job sites.

24. B — A \$250,000 excavator has a useful life extending well beyond one year and exceeds the IRS threshold for immediate expensing. It must be capitalized and depreciated over its MACRS recovery period (typically 5 years for construction equipment). Current expenses like fuel, rent, and office supplies are deducted in full in the year incurred.

25. D — The annual premium audit compares actual payroll by classification code against the estimated payroll used to set the initial premium. If the contractor's actual payroll exceeded the estimate (due to more workers, more hours, or higher wages), the contractor owes additional premium. If actual payroll was lower, the contractor receives a refund.

26. A — The Alabama Department of Revenue administers the state income tax withholding program. Employers must register with the Department, use Alabama withholding tables to calculate the correct amount to withhold from each paycheck, and deposit the withheld taxes according to the prescribed schedule.

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

27. C — GINA prohibits employers from requesting, requiring, or using genetic information (including family medical history) in any employment decision. An employer cannot refuse to hire a worker because of a genetic predisposition to a medical condition, nor can genetic information be used in decisions about promotion, termination, or job assignment.

28. D — Alabama has no state statute requiring employers to pay out unused vacation time upon termination. However, if the employer has an established written policy or consistent past practice of paying accrued vacation at termination, the employer must follow that policy consistently. Failing to honor an established policy may create breach of contract or discrimination claims.

29. B — A written HazCom program must include a list of all hazardous chemicals onsite, the location and availability of SDS for each chemical, the labeling system used to identify hazards, and the employee training program covering safe handling, storage, and emergency procedures. The program must be sitespecific and accessible to all workers at all times.

30. A — Under FLSA child labor provisions, 16 and 17-year-olds may work in construction but are prohibited from performing tasks declared hazardous by the Secretary of Labor — which includes most construction work involving heavy equipment operation, demolition, excavation, roofing, and work at dangerous heights. Limited nonhazardous tasks may be permitted.

31. B — Alabama is a right-to-work state, meaning employees cannot be compelled to join a union or pay union dues as a condition of employment. While employers may negotiate union contracts and employees may voluntarily join unions, no worker can be fired or denied employment for refusing to join or pay dues.

DOMAIN 7: PROJECT MANAGEMENT (Questions 32–34)

32. D — The contractor must correct all punch list items within a reasonable timeframe at no additional cost to the owner. Punch list items are deficiencies in the contractor's own work that do not meet the contract specifications. The remaining retainage is not released until all punch list items are corrected, all closeout documentation is submitted, and the project achieves final completion.

33. C — When an activity's float is consumed and it moves to the critical path, any further delay directly extends the project completion date. The contractor must prioritize resources to this activity, potentially accelerating work or adding crews, and must closely monitor progress to prevent additional slippage.

34. D — Preinstallation conferences bring together the contractor, subcontractor, architect, and inspector before major work begins to review specification requirements, confirm approved submittals, coordinate the installation sequence with other trades, clarify procedures, and

establish quality benchmarks. This proactive approach prevents quality problems that are costly to correct after installation.

DOMAIN 8: CONTRACT MANAGEMENT (Questions 35–40)

35. D — The duty to mitigate requires the nonbreaching party to take reasonable steps to minimize damages. A contractor wrongfully terminated must make reasonable efforts to secure replacement work rather than remaining idle to accumulate maximum damages. Failure to mitigate may reduce the recoverable damages in subsequent legal proceedings.

36. B — The scope exhibit defines the boundary of the subcontractor's contractual obligations. Work directed by the GC that falls outside this defined scope constitutes a change that entitles the subcontractor to additional compensation and potentially additional time. The subcontractor should document the outofscope directive and submit a change order request.

37. A — A force majeure clause excuses the contractor's performance during unforeseeable events beyond either party's control. The contractor is typically entitled to a time extension for the event's duration. Whether monetary compensation is also provided depends on the specific clause language — some clauses grant only time while others provide both time and cost recovery.

38. C — The contractor typically has the right to inspect alleged defects and the opportunity to cure (repair) them within a reasonable timeframe before the owner engages a third party. This rightto cure provision protects the contractor from being denied the chance to correct its own work at a lower cost. Denying this right may limit the owner's damage recovery.

39. D — A "time is of the essence" clause elevates schedule compliance from a minor contract term to a material obligation. Failure to meet the specified completion date constitutes a material breach entitling the owner to terminate and pursue damages. Without this clause, schedule delays may be treated as minor breaches warranting only monetary compensation.

40. B — A retention of rights clause preserves legal rights that are not specifically addressed or waived in the contract. It prevents either party from arguing that executing the contract constituted an implied waiver of statutory rights, tort claims, or rights under other agreements. This protective clause ensures the contract does not inadvertently surrender unintended rights.

DOMAIN 9: BUSINESS ORGANIZATION (Questions 41–42)

41. C — A singlemember LLC is treated as a "disregarded entity" by default for federal tax purposes. The LLC's income and expenses are reported on the owner's personal Schedule C, similar to a sole proprietorship. However, the LLC retains its statelaw liability protection. The owner may elect to be taxed as a corporation if desired.

42. D — SCorporation eligibility is restricted: maximum 100 shareholders, all shareholders must be U.S. citizens or residents, only one class of stock is permitted, and certain entity types (corporations, partnerships) cannot be shareholders. These restrictions distinguish SCorporations from CCorporations, which have no shareholder limitations.

DOMAIN 10: RISK MANAGEMENT (Questions 43–46)

43. D — OSHA's confined space regulations require a comprehensive entry program including hazard evaluation, atmosphere testing, continuous ventilation and monitoring, a written permit, an outside attendant, and rescue capability. Underground utility vaults commonly present oxygen deficiency, toxic gas accumulation, and engulfment hazards that can be immediately fatal.

44. B — Environmental contamination during construction may trigger enforcement action from multiple agencies: ADEM for state environmental violations, EPA for federal Clean Water Act and RCRA violations, the Army Corps of Engineers for wetland and waterway impacts, and the Alabama Department of Public Health for contamination affecting drinking water or public health.

45. C — Effective subcontractor default mitigation includes requiring performance bonds from high-risk subs, maintaining qualified backup subcontractor lists, verifying financial stability before award, including robust default provisions in subcontracts, monitoring progress closely, and making timely payments to reduce financial stress. Multiple layers of protection are needed.

46. A — On public projects where mechanics' liens cannot attach to government property, the payment bond serves as the equivalent financial protection. Unpaid contractors, subcontractors, and suppliers make claims against the payment bond to recover amounts owed. This is why payment bonds are mandatory on public projects — they replace the lien protection available on private work.

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

47. D — OSHA requires that exposed energized electrical parts be guarded, enclosed, or isolated to prevent contact by unqualified workers. Specific approach distances vary by voltage level, and unqualified workers must maintain safe distances from all exposed conductors. The employer must implement physical barriers or covers to prevent inadvertent contact.

48. B — Training records must document the date, topic, trainer's name, attendee names, and evidence of comprehension. These records demonstrate OSHA compliance and prove that workers were informed of site hazards before performing work. Records must be retained and available for OSHA inspection throughout the project and for the required retention period.

49. D — The RRP Rule requires specific leadsafe work practices: containment of the work area with plastic sheeting, prohibition of openflame burning and uncontrolled heat stripping, HEPA vacuum cleanup, wet methods for dust suppression, and postcleanup verification through visual inspection and clearance testing. These practices protect both workers and building occupants from lead exposure.

50. C — Fluorescent tubes containing mercury are classified as universal waste under EPA regulations. They must be stored unbroken in closed, labeled containers, accumulated for no more than one year, and transported to a permitted recycling or disposal facility. Breaking tubes releases mercury vapor, creating a hazardous exposure for workers and requiring hazardous waste cleanup procedures.