

PRACTICE EXAM 7: 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 property owner in Alabama hires a contractor to construct a new 5,000 square foot commercial office building. The total contract price is \$475,000. During construction, the owner approves three change orders totaling \$35,000, bringing the total project cost to \$510,000. The contractor held a valid license when the original \$475,000 contract was signed but the license monetary limitation is \$500,000. Under Alabama licensing law, what problem has been created?

- A. No problem exists because the original contract was within the monetary limitation at the time of signing
- B. No problem exists because change orders are exempt from the monetary limitation calculation
- C. The contractor should have refused the change orders to stay within the license monetary limit
- D. The total project cost of \$510,000 now exceeds the contractor's \$500,000 monetary limitation — the contractor should have applied for a license upgrade before accepting change orders that pushed the total above the limit

2. Under Alabama law, the Licensing Board may deny a license application based on the applicant's criminal history. Which types of criminal convictions are most likely to result in denial of a contractor's license application?

A. Only traffic violations such as speeding tickets and parking citations may result in license denial

B. Convictions involving fraud, dishonesty, theft, embezzlement, or crimes directly related to the construction business are most likely to result in denial because they reflect on the applicant's fitness to hold a position of trust in the industry

C. Only federal felony convictions may result in denial — state misdemeanor convictions are never considered

D. All criminal convictions including jaywalking automatically and permanently disqualify the applicant

3. A licensed contractor in Alabama wants to form a new company with a different name and transfer the existing license to the new entity. The contractor plans to dissolve the original company after the transfer. Under Alabama licensing regulations, is this transfer permitted?

A. Yes, licenses may be transferred freely between any entities owned by the same individual at any time

B. Yes, as long as the contractor pays a \$25 transfer fee to the Licensing Board within 60 calendar days

C. No, Alabama contractor licenses are not transferable between legal entities — the new company must apply for its own license with a separate application, qualifying party designation, financial statements, and examination compliance

D. Licenses may be transferred only between parent companies and their wholly owned subsidiary entities

4. Under Alabama law, the Licensing Board requires license applicants to pass both the NASCLA trade examination and the PSI Business and Law examination. If an applicant passes the Business and Law exam but fails the trade exam, what happens?

A. The applicant must retake only the failed trade examination — the passing score on the Business and Law exam is typically valid for a specified period, and the applicant does not need to retake the passed exam as long as the retake occurs within that validity window

B. The applicant must retake both examinations regardless of which one was passed

C. The applicant is automatically granted a provisional license valid for six months while preparing for the retake

D. The applicant is permanently barred from retaking any examination and may never obtain an Alabama license

5. A contractor licensed in Louisiana applies for an Alabama license through the reciprocity agreement between the two states. The Louisiana contractor has 15 years of construction experience and holds an unlimited classification in Louisiana. Under Alabama's reciprocity provisions, must the Louisiana contractor take the Alabama licensing examinations?

A. The contractor is completely exempt from all examinations and receives an Alabama license automatically

B. The contractor must take both the NASCLA trade exam and the Alabama Business and Law exam without exception

C. The contractor is exempt from all examinations but must wait two years before the reciprocal license is issued

D. The reciprocity agreement may exempt the contractor from the trade examination (since both states use the NASCLA exam) but the contractor may still be required to pass the Alabamaspecific Business and Law examination covering Alabama licensing law, lien law, and statespecific regulations

6. Under Alabama licensing regulations, a contractor who fails to respond to a complaint filed with the Licensing Board may face specific consequences. What happens if a licensed contractor ignores a Board investigation and fails to respond to the Board's requests for information?

A. The Board has no authority to take action if the contractor fails to respond to the investigation

B. The contractor's failure to respond may be treated as an admission of the complaint's allegations, and the Board may proceed with disciplinary action based on the available evidence — failure to cooperate with a Board investigation is itself a violation that may result in additional sanctions

C. The Board must close the case if the contractor does not respond within 30 days of the initial notice

D. Only a federal court may compel a contractor to respond to a state Licensing Board investigation

7. A contractor's qualifying party is also the sole owner of the company. The qualifying party is convicted of a felony involving fraud in a matter unrelated to construction. Under Alabama licensing law, how does this conviction affect the company's license?

A. The felony conviction of the qualifying party may serve as grounds for the Board to suspend, revoke, or refuse to renew the company's license because the qualifying party's character and fitness directly affect the company's licensure eligibility

B. A felony conviction unrelated to construction has no effect on the contractor's license under any circumstance

C. The license is automatically upgraded to unlimited classification upon the qualifying party's conviction

D. Only misdemeanor convictions affect licensing status — felony convictions are not considered by the Board

8. Under Alabama law, the Licensing Board publishes rules and regulations that have the force of law. How are proposed changes to the Board's rules communicated to the public and licensed contractors?

A. Rule changes are communicated only through private letters to individual contractors with no public notice

B. Rule changes take effect immediately with no prior notice or opportunity for public input of any kind

C. Proposed rule changes must follow the Alabama Administrative Procedure Act, which requires public notice of proposed rules, an opportunity for public comment, and a formal adoption process before the rules take effect

D. The Board's rules are permanent and cannot be changed, amended, or updated under any Alabama law

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

9. A contractor is preparing a bid for a commercial project and the estimator must account for "escalation" — the anticipated increase in material and labor costs between the bid date and the time the work will actually be performed. The project has a 24-month construction duration. Under standard estimating practice, how should the estimator account for escalation?

- A. The estimator should apply an escalation factor based on published cost indices and market forecasts, increasing the estimated costs of materials and labor that will be procured later in the project to reflect anticipated price increases over the 24-month construction period
- B. No escalation adjustment is necessary because material and labor costs never change during construction
- C. The estimator should reduce all costs by 10% to account for expected deflation during the construction period
- D. Escalation applies only to projects exceeding \$10,000,000 and is not applicable to smaller commercial work

10. A contractor is reviewing the bid documents for a public project and notices that the specifications include both "proprietary" specifications (naming specific products) and "performance" specifications (describing required outcomes). Under Alabama's Competitive Bid Law, what concern does a proprietary specification raise on a public project?

- A. Proprietary specifications are always preferred on public projects because they ensure consistent quality
- B. Proprietary specifications have no legal implications on public projects under Alabama law
- C. Proprietary specifications are required by Alabama law on all public projects exceeding \$1,000,000
- D. Proprietary specifications naming a single product without an "or equal" provision may restrict competition and violate the intent of competitive bidding — public projects should generally allow equivalent products to promote fair competition among bidders

11. A contractor is calculating the "overhead and profit" markup for a change order on a commercial project. The contract specifies that the contractor may charge 15% overhead and profit on the contractor's selfperformed work and 10% on subcontracted work. The change involves \$20,000 of selfperformed work and \$30,000 of subcontracted work. What is the total change order amount including markup?

- A. \$50,000 because no markup is permitted on change order work under standard contract provisions
- B. \$57,500 calculated by applying a 15% markup to the entire \$50,000 of combined work
- C. \$56,000 calculated as: $(\$20,000 \times 1.15) + (\$30,000 \times 1.10) = \$23,000 + \$33,000 = \$56,000$

D. \$75,000 calculated by applying a 50% markup to the entire \$50,000 of combined direct costs

12. A contractor's estimator is preparing a detailed labor estimate for a commercial project. The estimator uses "crew productivity rates" to calculate the number of labor hours required for each work activity. If a fourperson crew can install 1,200 square feet of drywall in an 8hour day, what is the labor productivity rate in "labor hours per square foot"?

A. The productivity rate is 0.027 labor hours per square foot ($32 \text{ labor hours} \div 1,200 \text{ SF}$), meaning each square foot requires approximately 1.6 minutes of labor — the estimator uses this rate to calculate the total labor hours for the project's entire drywall scope

B. The productivity rate is 1.0 labor hour per square foot for all drywall installation regardless of crew size

C. The productivity rate is 150 labor hours per square foot based on a singleworker calculation method

D. Labor productivity rates cannot be calculated from crew production data and must be purchased separately

13. A contractor submits the apparent low bid on a public project in Alabama. After the bid opening, the secondlowest bidder files a "bid protest" claiming that the low bidder's bid contains a material irregularity. Under Alabama's Competitive Bid Law, how are bid protests typically handled?

A. Bid protests are prohibited under Alabama law and the lowest bidder always receives the award automatically

B. Bid protests are decided by a popular vote of all contractors who submitted bids on the project

C. Bid protests result in automatic cancellation of the project and all bids must be returned to the bidders

D. The public entity must evaluate the protest, determine whether the alleged irregularity is material (affecting price, quantity, quality, or delivery) or minor (a clerical or administrative deficiency), and make an award decision based on the applicable law and facts — material irregularities may render a bid nonresponsive

DOMAIN 3: LIEN LAWS (Questions 14–15)

14. Under Alabama's mechanics' lien law, a property owner may protect against mechanics' liens by requiring the general contractor to provide lien waivers with each progress payment application. Under standard practice, what types of lien waivers should the owner obtain with each payment?

- A. Only the general contractor's lien waiver is needed — subcontractor and supplier waivers are optional
- B. No lien waivers are necessary because Alabama law automatically releases all lien rights upon payment
- C. The owner should obtain conditional lien waivers from the general contractor, all subcontractors, and all material suppliers for the payment amount being released — these waivers become effective upon actual receipt of payment and progressively reduce the lien exposure on the property with each payment cycle
- D. Lien waivers are only required on the final payment and not on any progress payments during construction

15. A subcontractor completes work on a commercial project and files a mechanics' lien against the property. The property owner wants to have the lien removed from the title so the owner can refinance the property. Under Alabama law, what mechanism allows the owner to remove the lien from the title while the dispute is still pending?

- A. The owner may simply ignore the lien because mechanics' liens have no practical effect on property title
- B. The owner may petition the court to have the lien "bonded off" by posting a surety bond in the amount of the lien claim (plus a statutory percentage), which substitutes the bond for the lien on the property — the lien is then removed from the title and the claimant's recovery is limited to the bond proceeds
- C. The owner must pay the full lien amount to the claimant regardless of whether the claim is valid or disputed
- D. Mechanics' liens cannot be removed from a property title under any procedure in Alabama law

DOMAIN 4: FINANCIAL MANAGEMENT (Questions 16–20)

16. A contractor is preparing the company's annual financial statement for license renewal. The accountant asks whether the statement should be prepared on a "cash basis" or an "accrual basis" of accounting. For a construction company, which method is generally required or preferred for financial statement preparation?

- A. The accrual basis of accounting is generally required or preferred because it recognizes revenue when earned and expenses when incurred (regardless of when cash changes hands), providing a more accurate picture of the company's financial position — this is particularly important for construction companies with longduration contracts
- B. The cash basis is always required for all construction companies regardless of size or revenue volume
- C. Neither basis is acceptable and construction companies must use a proprietary accounting system
- D. The accounting basis has no effect on financial statement accuracy and the choice is purely cosmetic

17. A contractor's project financial report shows that the "cost to complete" estimate has increased by \$100,000 from the prior month's report, even though no change orders have been approved. What does this increase most likely indicate?

- A. The increase indicates that the owner has approved additional scope worth \$100,000 through change orders
- B. The increase indicates the project is exactly on budget with no cost concerns warranting attention
- C. The costtocomplete increase is always caused by accounting errors and should be disregarded entirely
- D. The increase likely indicates that the project is experiencing cost overruns — the contractor's project team has identified that the remaining work will cost \$100,000 more than previously estimated, potentially due to lowerthanexpected productivity, material price increases, subcontractor issues, or previously unidentified scope

18. A contractor receives a \$500,000 progress payment from the owner. The contractor's subcontractors are owed \$350,000, material suppliers are owed \$75,000, and the contractor's

payroll for the period is \$50,000. After paying all obligations, how much cash does the contractor retain from this payment?

- A. \$500,000 because the contractor is not required to pay any subcontractors or suppliers from the payment
- B. \$25,000 ($\$500,000$ minus $\$350,000$ minus $\$75,000$ minus $\$50,000 = \$25,000$) — this retained amount must cover the contractor's overhead and profit, and the contractor must manage this narrow margin carefully to maintain positive cash flow
- C. \$150,000 because only subcontractor payments are deducted from the progress payment amount
- D. \$0 because all progress payments must be held in escrow and cannot be used for any project expenses

19. A contractor's accountant prepares a "statement of cash flows" for the construction company. This statement shows three categories of cash activity: operating, investing, and financing. Under standard accounting principles, which category includes cash received from project owners for construction work completed?

- A. Cash received from owners for construction work is classified as investing activity on the cash flow statement
- B. Cash received from owners is classified as financing activity related to the company's debt obligations
- C. Cash received from project owners for construction work completed is classified as "operating activity" — it represents the core revenue-generating activity of the construction business and is the most important indicator of the company's ability to generate cash from operations
- D. Cash received from owners is not reported on the statement of cash flows under any accounting standard

20. A contractor is evaluating whether to lease or purchase a new piece of construction equipment costing \$350,000. The equipment has a useful life of 7 years. Under financial management principles, what factors should the contractor consider in making the lease-versus-buy decision?

- A. The total cost of ownership (purchase price, maintenance, insurance, depreciation tax benefits) versus the total lease cost, the impact on the company's cash flow and working capital, the effect on the balance sheet and bonding capacity, the equipment utilization rate, and the tax implications of each option
- B. The contractor should always purchase equipment because leasing is never costeffective in construction
- C. The contractor should always lease equipment because purchasing ties up too much working capital
- D. The only factor to consider is the monthly payment amount with no other financial analysis required

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

21. Under federal tax law, construction contractors must choose a method of accounting for longterm construction contracts. For contractors whose average annual gross receipts exceed \$27 million (adjusted periodically), what method does the IRS generally require for longterm contracts?

- A. The cash basis method is required for all contractors regardless of revenue size or contract duration
- B. The percentageofcompletion method is generally required for longterm construction contracts when the contractor's average annual gross receipts exceed the threshold — this method recognizes revenue proportionally to the work completed, matching income with the period in which it is earned
- C. No specific accounting method is required and contractors may use any method they choose
- D. The completed contract method is required for all contractors exceeding the revenue threshold

22. A contractor is reviewing the company's "experience modification rate" (EMR) calculation. The EMR for the upcoming policy year is 1.25, which has increased from 0.95 two years ago. The contractor asks what specific events caused this increase. Under the workers' compensation rating system, what drives EMR changes?

- A. The EMR is based on the company's revenue and increases automatically as revenue grows each year

B. The EMR is assigned randomly by the insurance carrier with no relationship to the company's claims

C. The EMR is determined solely by the number of employees and increases as the workforce grows

D. The EMR increase from 0.95 to 1.25 was driven by the company's actual workers' compensation claims experience over the rating period (typically three years) — more frequent claims, more severe injuries, and higher claim costs relative to the expected losses for the company's classification and payroll size cause the EMR to rise

23. Under Alabama law, an employer who willfully fails to secure required workers' compensation insurance and an employee is injured on the job faces enhanced liability. How does the lack of insurance affect the employer's liability?

A. Without workers' compensation insurance, the employer is protected by the exclusive remedy doctrine and faces no personal liability for employee injuries regardless of fault

B. The employer faces no enhanced liability because workers' compensation insurance is voluntary in Alabama

C. Without insurance, the employer must pay only the minimum wage for the day the injury occurred

D. Without insurance, the employer loses the protection of the exclusive remedy doctrine — the injured employee may sue the employer directly for negligence, and the employer cannot raise the commonlaw defenses (contributory negligence, assumption of risk, fellow servant rule) that would otherwise be available

24. A contractor is reviewing the company's commercial general liability (CGL) insurance policy and notices a "productscompleted operations aggregate" limit separate from the "general aggregate" limit. What does the productscompleted operations aggregate cover?

A. The productscompleted operations aggregate covers only claims for products manufactured by the contractor

B. The productscompleted operations aggregate covers only property damage to the contractor's own work

C. The productscompleted operations aggregate is a separate pool of coverage for claims arising from the contractor's completed work and products — it is distinct from the general aggregate, which covers all other CGL claims, ensuring that completed operations claims do not exhaust the coverage available for ongoing operations

D. The products completed operations aggregate and the general aggregate are the same amount with no distinction

25. Under federal tax law, a contractor must determine whether workers are employees or independent contractors. The IRS uses a multifactor analysis. If a worker provides services to multiple companies simultaneously, uses their own tools, sets their own schedule, and invoices for completed work rather than receiving a regular paycheck, how is this worker most likely classified?

A. The worker is classified as an employee because all construction workers are employees by default

B. These factors suggest independent contractor classification but are not solely determinative

C. The worker is classified based solely on the dollar amount earned during the calendar year

D. These behavioral and financial control factors — providing services to multiple clients, using own tools, setting own schedule, and invoicing for work — strongly suggest independent contractor status, though the IRS evaluates the totality of the relationship and no single factor is determinative

26. A contractor's insurance broker recommends a "subcontractor default insurance" (SDI) policy as an alternative to requiring subcontractor performance bonds. How does SDI differ from traditional subcontractor performance bonds?

A. SDI and subcontractor performance bonds are identical products with different marketing names

B. SDI is purchased by the general contractor as a firstparty policy that covers the GC's losses from subcontractor default — unlike a bond (which is provided by the subcontractor through a surety), SDI gives the GC direct control over the claims process, typically provides faster payment, and may cover certain costs that bonds do not

C. SDI covers only material costs while performance bonds cover only labor costs for subcontractor default

D. SDI is available only for government projects while performance bonds are used only on private projects

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

27. Under the Pregnancy Discrimination Act (PDA), which amends Title VII, employers may not discriminate against employees based on pregnancy, childbirth, or related medical conditions. In the construction industry, what specific obligation does this law create for employers?

- A. Employers must treat pregnancy-related conditions the same as any other temporary disability — providing the same accommodations, leave policies, and benefits that would be available to other employees with temporary medical conditions
- B. Employers must terminate all pregnant employees immediately upon learning of the pregnancy
- C. The PDA applies only to office workers and does not cover field construction personnel under any condition
- D. Employers must assign pregnant workers exclusively to heavy lifting tasks to prove nondiscrimination

28. A contractor's field superintendent fires a worker on the spot for refusing to enter an excavation that the worker believes is unsafe. Under OSHA's whistleblower protection provisions (Section 11(c) of the OSH Act), what rights does the fired worker have?

- A. The worker has no rights because employees must always follow supervisory instructions without exception
- B. The worker may file a complaint only with the Alabama Department of Labor with no federal remedy
- C. The worker has no legal protection because OSHA's whistleblower provisions do not cover construction
- D. The worker may file a complaint with OSHA within 30 days alleging retaliatory termination — OSHA's Section 11(c) protects workers from retaliation for refusing to perform work they reasonably believe poses an imminent danger of death or serious injury

29. Under the Health Insurance Portability and Accountability Act (HIPAA), employers who sponsor group health plans have specific obligations regarding employee health information. In the construction context, what HIPAA obligation is most relevant?

- A. HIPAA requires employers to publicly post all employees' medical records on the company bulletin board
- B. HIPAA prohibits employers from offering health insurance to any construction workers
- C. Employers must protect the privacy of employees' protected health information (PHI) and may not use medical information obtained through the group health plan for employment decisions — disclosure of employee medical information is restricted to authorized purposes
- D. HIPAA applies only to hospitals and has no requirements for construction company employers

30. A contractor employs both union and nonunion workers on different projects. Under the National Labor Relations Act, can the contractor pay different wage rates to union and nonunion workers performing the same type of work on different projects?

- A. No, all workers must receive identical wages regardless of union status, project type, or contract terms
- B. No, federal law mandates a single wage rate for all construction workers in every state without exception
- C. Only nonunion workers may receive higher wages and union workers must accept minimum wage rates
- D. Yes, the contractor may pay different rates because wage rates for union workers are determined by the collective bargaining agreement (CBA) for each specific project, while nonunion wages are determined by market conditions and the employer's compensation policies — different projects may have different wage structures

31. Under OSHA's construction safety standards, employers must establish a "safety and health program" appropriate to the conditions of the work site. The program must include a method for employees to report safety hazards without fear of retaliation. What is this reporting mechanism commonly called?

- A. A "safety reporting system" or "hazard reporting procedure" that allows any worker to report unsafe conditions, nearmiss incidents, and safety concerns to management without fear of discipline or retaliation — effective programs encourage reporting by treating hazard identification as a positive contribution to site safety
- B. A "performance review system" that evaluates employees' production rates against daily quotas

- C. A "financial reporting system" that tracks project costs and identifies budget overruns for correction
- D. A "marketing system" that collects customer feedback about the quality of the contractor's completed work

DOMAIN 7: PROJECT MANAGEMENT (Questions 32–34)

32. A contractor is managing a commercial project and discovers that the mechanical subcontractor is 15 working days behind schedule on the critical path. The contractor issues a "cure notice" to the subcontractor. Under standard subcontract provisions, what does a cure notice require?

- A. A cure notice requires the subcontractor to immediately terminate all employees and close the business
- B. A cure notice is a social invitation to a project celebration and has no contractual significance at all
- C. A cure notice notifies the subcontractor of the specific default (15 days behind schedule), demands corrective action within a specified cure period (such as submitting a recovery plan and adding resources), and warns that failure to cure may result in termination of the subcontract and backcharges for the cost of completing the work
- D. A cure notice requires the subcontractor to pay the general contractor a \$10,000 penalty per day of delay

33. A contractor is using "Building Information Modeling" (BIM) for MEP coordination on a complex commercial project. During the coordination process, the BIM model reveals a clash between a 24inch HVAC duct and a 12inch storm drain pipe at the same elevation in a corridor ceiling. Under standard construction practice, who is responsible for resolving this clash?

- A. The building official must resolve all clashes identified in the BIM model before construction may proceed
- B. The general contractor is responsible for facilitating the resolution of the clash through the BIM coordination process — the GC coordinates with the mechanical and plumbing subcontractors (and potentially the structural and electrical trades) to determine which system must be rerouted, considering cost, accessibility, and the impact on other building systems
- C. BIM clashes are always resolved by the software automatically with no human involvement required

D. The owner must hire a separate consultant to resolve each clash at the owner's expense per the contract

34. A contractor's project manager is tracking the project's "percent complete" using two different methods: costbased percent complete and physical percent complete. The costbased method shows 60% complete (based on costs incurred versus total budget), but the physical observation shows only 45% of the work is actually installed. What does this discrepancy indicate?

A. The discrepancy has no significance and both methods always produce identical results on every project

B. The project is ahead of schedule because the costbased percentage is higher than the physical percentage

C. The discrepancy cannot be analyzed without additional information about the project's original bid amount

D. The discrepancy indicates that the project is spending money faster than it is completing work — costs are being consumed at a disproportionately high rate relative to physical progress, suggesting cost overruns, frontloaded billing, premature material purchases, or lowerthanexpected labor productivity

DOMAIN 8: CONTRACT MANAGEMENT (Questions 35–40)

35. Under Alabama law, a construction contract may include a "warranty" clause that defines the contractor's obligations for correcting defective work after project completion. Under standard AIA contract provisions, what is the typical scope of the contractor's oneyear warranty?

A. The contractor must correct defects in workmanship and materials that are discovered within one year of substantial completion at no cost to the owner — the warranty covers work that does not conform to the contract requirements due to the contractor's deficient performance, not damage caused by the owner's misuse or normal wear and tear

B. The warranty covers only the building's structural frame and does not include any interior finishes

C. The warranty requires the contractor to provide free maintenance services for one year including cleaning

D. The warranty covers only defects discovered during the first 30 days after substantial completion

36. A contractor is negotiating a construction contract and the owner proposes a "payifpaid" clause for subcontractor payments rather than a "paywhenpaid" clause. Under Alabama law, what is the critical legal difference between these two clauses?

A. Payifpaid and paywhenpaid clauses are identical with no legal distinction between them in Alabama

B. A payifpaid clause applies only to material suppliers while a paywhenpaid clause applies to subcontractors

C. A paywhenpaid clause applies only to public projects while a payifpaid clause applies to private projects

D. A payifpaid clause makes the owner's payment to the GC an absolute condition precedent — the GC has no obligation to pay the subcontractor if the owner never pays the GC; a paywhenpaid clause merely establishes a reasonable timing mechanism and the GC must pay within a reasonable time regardless of owner payment

37. A project owner issues a "suspension of work" order directing the contractor to stop all work on a commercial project for 30 days while the owner resolves a financing issue. Under standard contract provisions, what is the contractor's entitlement during the suspension period?

A. The contractor has no entitlement during a suspension and must absorb all standby costs entirely

B. The contractor must continue working at full speed during the suspension regardless of the owner's order

C. The contractor is generally entitled to a time extension equal to the suspension period and may be entitled to additional compensation for standby costs (idle equipment, supervision, temporary facilities, extended insurance) incurred during the ownerdirected suspension

D. The contractor must terminate all subcontracts and release all employees during the suspension period

38. Under Alabama contract law, what is the doctrine of "quantum meruit" and when does it apply in the construction context?

A. Quantum meruit (meaning "as much as deserved") allows a contractor to recover the reasonable value of services provided when there is no enforceable contract — it prevents the unjust enrichment of a party who has received the benefit of the contractor's work without paying for it

B. Quantum meruit is a Latin term for the contract price specified in the written construction agreement

C. Quantum meruit applies only to government contracts and is not recognized in private construction disputes

D. Quantum meruit requires the contractor to perform work for free as a charitable contribution to the owner

39. A commercial construction contract includes a "dispute escalation" provision that requires disputes to proceed through three stages before reaching litigation. What is the typical sequence of these three stages?

A. Litigation, then arbitration, then mediation — the most formal process is attempted first

B. Direct negotiation between the parties as the first step, then mediation with a neutral third party if negotiation fails, then binding arbitration or litigation as the final step — this escalating structure encourages resolution at the earliest and least costly stage

C. The three stages are always identical and may be completed in any random order without consequence

D. Only litigation is recognized under Alabama law — negotiation and mediation are not valid dispute methods

40. A contractor completes a commercial project and submits the final pay application. The owner's attorney requests a "final unconditional lien waiver" from the contractor before releasing the final payment including retainage. Under standard construction practice, why does the owner require this document?

A. The final unconditional lien waiver is a decorative certificate with no legal significance for either party

- B. The final unconditional lien waiver is required only on federal government projects and not private work
- C. The final unconditional lien waiver confirms that the contractor has been paid in full and permanently releases all mechanics' lien rights against the property — it protects the owner from future lien claims by the contractor after final payment is made
- D. The final unconditional lien waiver extends the contractor's warranty from one year to five years

DOMAIN 9: BUSINESS ORGANIZATION (Questions 41–42)

41. A contractor operates as an LLC and one of the members wants to bring a lawsuit against the LLC for breach of the operating agreement. Under Alabama law, how are disputes between LLC members and the LLC typically resolved?

- A. Only the Alabama Licensing Board may resolve disputes between LLC members and the entity
- B. Only the Secretary of State's office resolves internal LLC disputes through an administrative hearing
- C. All LLC member disputes must be resolved by the other LLC members with no external remedies available
- D. Disputes between members and the LLC are resolved according to the operating agreement's dispute resolution provisions (which may include mediation and arbitration), or through Alabama's courts if the operating agreement does not address the issue — the member may file a lawsuit for breach of the operating agreement

42. A contractor is forming a new construction company and must obtain an Employer Identification Number (EIN) from the IRS. Under federal tax law, what is the purpose of the EIN and when is it required?

- A. An EIN is optional and has no legal significance for any type of construction business in any state
- B. The EIN is a unique tax identification number assigned by the IRS to a business entity — it is required for filing federal tax returns, reporting payroll taxes, opening business bank accounts, and applying for contractor licenses and surety bonds, and it functions as the business's "Social Security number" for tax purposes

C. An EIN is required only for businesses with more than 500 employees and is not needed for small contractors

D. An EIN is issued only by the Alabama Department of Revenue and is not a federal tax requirement

DOMAIN 10: RISK MANAGEMENT (Questions 43–46)

43. A contractor is managing risk on a commercial project where the specifications require a green (vegetative) roof system. The contractor has no prior experience installing green roofs. From a risk management perspective, what steps should the contractor take to manage the risk of this unfamiliar scope?

A. The contractor should subcontract the green roof installation to an experienced specialty subcontractor with a proven track record, require the subcontractor to carry appropriate insurance, obtain a performance bond if the subcontract value warrants it, and closely monitor the installation quality

B. The contractor should selfperform the green roof work without any prior training or specialized knowledge

C. The contractor should omit the green roof from the bid and hope the owner deletes it from the project scope

D. The contractor should install a standard builtup roof instead of the specified green roof without notifying anyone

44. Under Alabama law, a contractor who operates a construction crane on a public roadway must obtain specific permits and insurance. What type of permit is typically required when a crane must be set up on or over a public road?

A. No permits are required for crane operations on public roads in Alabama under any circumstances

B. Only a standard building permit covers all crane operations regardless of location or road impact

C. A street closure or rightofway permit from the local municipality or Alabama Department of Transportation is required, along with adequate liability insurance, a traffic control plan, and potentially police escort — the permit ensures public safety and coordination with traffic management authorities

D. Only a verbal agreement with the nearest property owner is required for crane operations on public roads

45. A contractor's safety manager is evaluating the company's "total recordable incident rate" (TRIR) and notices it has increased from 3.2 to 5.8 over the past year. Under standard industry practice, how is TRIR calculated, and what does the increase signify?

A. TRIR is calculated by counting only fatalities and dividing by the number of projects completed per year

B. TRIR is assigned by OSHA based on the contractor's annual revenue with no relationship to actual injuries

C. TRIR measures only the number of firstaid cases and does not include medical treatment or losttime injuries

D. TRIR is calculated as $(\text{number of recordable incidents} \times 200,000) \div \text{total hours worked by all employees}$ — the increase from 3.2 to 5.8 indicates a significant deterioration in safety performance, with nearly twice as many recordable incidents per 200,000 hours worked compared to the prior year

46. A contractor discovers that a subcontractor's workers' compensation insurance has lapsed during the middle of a commercial project. Under Alabama law and standard construction practice, what should the contractor do?

A. The contractor should ignore the lapse because the subcontractor's insurance status is not the GC's concern

B. The contractor must immediately stop the subcontractor's work until valid workers' compensation insurance is reinstated and proof of coverage is provided — allowing an uninsured subcontractor to continue working exposes the GC to statutory liability for the subcontractor's employee injuries and violates the subcontract insurance requirements

C. The contractor should continue the subcontractor's work and address the insurance lapse after project completion

D. The contractor should transfer the subcontractor's employees to the GC's payroll permanently

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

47. Under OSHA's construction safety standards, a contractor must develop a "fall protection plan" as an alternative to conventional fall protection (guardrails, nets, PFAS) only when conventional methods are infeasible or create a greater hazard. What must a fall protection plan include?

- A. A written, sitespecific plan prepared by a qualified person that identifies the work activities where conventional fall protection is infeasible, explains why conventional methods cannot be used, describes the alternative fall protection measures that will be implemented, and includes a schedule for implementing conventional protection as soon as feasible
- B. Only a verbal agreement between the superintendent and the workers that they will be careful near edges
- C. Only a signature from each worker acknowledging that they accept the risk of falls without protection
- D. Fall protection plans are prohibited by OSHA and conventional fall protection must always be used

48. A contractor is performing demolition on a commercial building and encounters a refrigeration system containing chlorofluorocarbon (CFC) refrigerant in the existing HVAC equipment. Under EPA's Clean Air Act regulations, how must the CFC refrigerant be handled during demolition?

- A. CFC refrigerant may be vented directly to the atmosphere during demolition without any recovery process
- B. CFC refrigerant must be properly recovered before the equipment is dismantled — venting refrigerant to the atmosphere is prohibited by the Clean Air Act, and only EPAcertified technicians using approved recovery equipment may perform the refrigerant recovery
- C. CFC refrigerant must be recovered by EPAcertified technicians using approved recovery equipment before the equipment is demolished — venting any refrigerant to the atmosphere is a federal violation carrying significant fines under the Clean Air Act
- D. CFC regulations apply only to residential air conditioning and do not cover commercial HVAC equipment

49. Under OSHA's excavation safety standard, a contractor performing trenching work must have an "emergency rescue plan" for workers who may become trapped in a trench collapse. What must this rescue plan include?

A. Only a list of nearby restaurants where workers can seek shelter during a trench collapse emergency

B. Only the project superintendent's home phone number written on a piece of paper posted in the trailer

C. Only a general instruction to "call 911" with no additional planning or equipment preparation required

D. The rescue plan must include specific procedures for emergency response, trained rescue personnel or arrangement for emergency rescue services, appropriate rescue equipment available onsite (retrieval systems, ladders), communication procedures for summoning help, and regular training and drills to ensure workers know how to respond

50. A contractor is constructing a commercial building near a wetland area designated by the U.S. Army Corps of Engineers. During grading operations, the contractor inadvertently pushes fill material into the wetland boundary. Under the Clean Water Act Section 404, what consequence does this unauthorized fill placement create?

A. Placing fill in a designated wetland has no legal consequence because the Clean Water Act does not regulate wetlands

B. Unauthorized placement of fill material in a jurisdictional wetland is a violation of Clean Water Act Section 404 — the contractor may face federal enforcement action including stopwork orders, mandatory restoration of the wetland, civil penalties, and potentially criminal prosecution for knowing violations

C. Only the property owner faces penalties for wetland fill and the contractor bears no liability for the violation

D. Wetland regulations apply only to residential construction and do not affect commercial building projects

Practice Exam 7: Answer Key and Explanations

DOMAIN 1: LICENSING REQUIREMENTS (Questions 1–8)

1. D — The contractor's monetary limitation applies to the total project cost, including change orders. When change orders push the total from \$475,000 to \$510,000, the project exceeds the \$500,000 license limit. The contractor should have applied for a license upgrade before accepting change orders that would cause the total to exceed the monetary limitation.
2. B — Convictions involving fraud, dishonesty, theft, embezzlement, or crimes directly related to the construction business are most relevant to license denial because they reflect on the applicant's trustworthiness and fitness to hold a position of public trust. The Board evaluates the nature, severity, and recency of the criminal history in making its determination.
3. C — Alabama contractor licenses are nontransferable between legal entities. Dissolving the original company and forming a new one creates a completely different legal entity that must apply for its own license. The new entity must submit a separate application with qualifying party designation, financial statements, and examination compliance.
4. A — When an applicant passes one exam but fails the other, only the failed exam must be retaken. The passing score on the Business and Law exam is typically valid for a specified period, allowing the applicant to focus preparation on the failed trade exam without losing credit for the exam already passed.
5. D — Because both Alabama and Louisiana use the NASCLA trade examination, the reciprocity agreement may exempt the Louisiana contractor from retaking the trade exam. However, the Alabamaspecific Business and Law examination covering state licensing law, lien law, and other Alabamaspecific regulations may still be required since it tests knowledge unique to Alabama.
6. B — Failure to cooperate with a Board investigation may be treated as an admission of the complaint's allegations. The Board may proceed with disciplinary action based on the available evidence. Additionally, noncooperation is itself a separate violation that may result in independent sanctions beyond those related to the original complaint.
7. A — The qualifying party's character and fitness directly affect the company's licensure. A felony conviction involving fraud — even if unrelated to construction — reflects on the qualifying party's trustworthiness and may serve as grounds for Board action against the company's license. The Board evaluates the totality of the qualifying party's character.
8. C — The Alabama Administrative Procedure Act governs the Board's rulemaking process. Proposed rules must be published for public notice, a comment period must be provided for public input, and the rules must follow a formal adoption process before taking effect. This ensures transparency and due process in the regulatory process.

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

9. A — For longduration projects, the estimator must apply escalation factors to account for anticipated increases in material and labor costs between bid time and procurement time.

Published cost indices (such as ENR, RSMeans, or BLS data) and market forecasts inform the escalation percentage applied to each cost category based on when the materials will be purchased.

10. D — Proprietary specifications naming a single product without an "or equal" alternative may restrict competition and violate the spirit of competitive bidding on public projects. Alabama's Competitive Bid Law promotes fair competition, and specifications should generally allow equivalent products unless the specifying authority can justify the solesource requirement.

11. C — The markup is applied at different rates based on who performs the work: selfperformed work at 15% and subcontracted work at 10%. The calculation is $(\$20,000 \times 1.15) + (\$30,000 \times 1.10) = \$23,000 + \$33,000 = \$56,000$. This tiered markup reflects the different levels of risk and management effort for selfperformed versus subcontracted work.

12. A — A fourperson crew working 8 hours produces 32 labor hours ($4 \times 8 = 32$). Dividing 32 labor hours by 1,200 square feet yields 0.027 labor hours per square foot. This unit rate allows the estimator to calculate the total labor hours for any quantity of drywall by multiplying the square footage by the rate.

13. D — The public entity must evaluate whether the alleged irregularity is material (affecting price, quantity, quality, or delivery) or minor (a clerical or administrative deficiency that can be waived). Material irregularities render the bid nonresponsive, while minor irregularities may be waived. The decision must comply with applicable law and protect the integrity of the competitive process.

DOMAIN 3: LIEN LAWS (Questions 14–15)

14. C — The owner should obtain conditional lien waivers from the general contractor, all subcontractors, and all material suppliers with each progress payment. These waivers become effective upon actual receipt of the stated payment and progressively reduce the lien exposure on the property. Obtaining waivers from only the GC leaves the owner exposed to liens from unpaid lowertier claimants.

15. B — Alabama law allows a property owner to "bond off" a mechanics' lien by posting a surety bond in the amount of the lien claim plus a statutory percentage. The bond substitutes for the lien on the property title, freeing the property for refinancing or sale. The lien claimant's recovery is then limited to the bond proceeds rather than the property itself.

DOMAIN 4: FINANCIAL MANAGEMENT (Questions 16–20)

16. A — The accrual basis of accounting is generally required or preferred for construction companies because it recognizes revenue when earned (not when cash is received) and expenses when incurred (not when paid). This provides a more accurate picture of financial performance on longduration contracts where significant time gaps exist between work performance and cash collection.

17. D — An increase in the estimated cost to complete without corresponding change orders indicates that the project team has identified cost overruns in the remaining work. Possible causes include lowerthanexpected productivity, material price increases, subcontractor issues,

or previously unidentified scope. The contractor must investigate the cause and implement corrective measures.

18. B — After paying subcontractors (\$350,000), suppliers (\$75,000), and payroll (\$50,000), the contractor retains \$25,000 from the \$500,000 payment. This narrow margin must cover the contractor's project overhead and profit. Cash flow management is critical because the retained amount is often insufficient to fund the next billing cycle's expenses.

19. C — Cash received from project owners for construction work is classified as operating activity because it represents the company's core revenue-generating function. Operating cash flow is the most important indicator of the company's ability to generate cash from its primary business activities and fund ongoing operations.

20. A — The lease-versus-buy decision involves analyzing total cost of ownership versus total lease cost, cash flow impact, balance sheet and bonding capacity effects, equipment utilization rates, tax implications (depreciation versus lease deductions), maintenance responsibility, and the company's financial flexibility. Each factor may favor a different option.

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

21. B — The IRS generally requires the percentage-of-completion method for long-term construction contracts when the contractor's average annual gross receipts exceed the statutory threshold. This method recognizes revenue proportionally to work completed, providing the IRS with a more accurate annual tax picture than the completed contract method, which defers all recognition until project completion.

22. D — The EMR increase from 0.95 to 1.25 was driven by the company's actual claims experience over the three-year rating period. More frequent claims, more severe injuries, and higher total claim costs relative to the expected losses for the company's classification and payroll size cause the EMR to rise, directly increasing the workers' compensation premium.

23. D — Without workers' compensation insurance, the employer loses the exclusive remedy protection. The injured employee may sue the employer directly in court for negligence, and the employer cannot raise the traditional common-law defenses (contributory negligence, assumption of risk, fellow servant rule). This dramatically increases the employer's potential liability exposure.

24. C — The products-completed operations aggregate is a separate coverage pool within the CGL policy dedicated to claims arising from the contractor's completed work. It ensures that completed operations claims do not exhaust the general aggregate that covers ongoing operations. This separation is critical because construction defect claims often surface years after project completion.

25. D — The described factors — multiple clients, own tools, self-determined schedule, and invoicing for completed work — strongly suggest independent contractor status. However, the IRS evaluates the totality of the relationship using behavioral control, financial control, and relationship-type factors. No single factor is determinative, and misclassification carries significant tax penalties.

26. B — Subcontractor default insurance is a firstparty policy purchased by the general contractor. Unlike a performance bond (which is provided by the subcontractor through a surety), SDI gives the GC direct control over the claims process. SDI typically provides faster claim resolution and may cover certain predefault costs and soft costs that bonds traditionally exclude.

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

27. A — The Pregnancy Discrimination Act requires employers to treat pregnancyrelated conditions the same as any other temporary disability. If the employer provides lightduty assignments, modified schedules, or leave for other temporary conditions, the same accommodations must be available for pregnancyrelated conditions. Singling out pregnancy for adverse treatment violates the PDA.

28. D — OSHA Section 11(c) protects workers from retaliation for refusing to perform work they reasonably believe poses imminent danger of death or serious physical harm. The fired worker may file a retaliation complaint with OSHA within 30 days. If the investigation confirms retaliation, OSHA may order reinstatement, back pay, and other remedies.

29. C — HIPAA requires employers who sponsor group health plans to protect the privacy of employees' protected health information. Medical information obtained through the health plan may not be used for employment decisions such as hiring, firing, or job assignments. Unauthorized disclosure of employee medical information violates HIPAA privacy rules.

30. D — Union wage rates are determined by collective bargaining agreements specific to each project or jurisdiction. Nonunion wages are determined by market conditions and the employer's compensation policies. Different projects may have different contractual wage structures, and the contractor must comply with the applicable agreement for each project.

31. A — An effective hazard reporting system allows any worker to report unsafe conditions, nearmiss incidents, and safety concerns without fear of discipline or retaliation. Encouraging reporting helps identify hazards before they cause injuries. Programs that penalize reporters suppress hazard identification and increase the risk of serious incidents.

DOMAIN 7: PROJECT MANAGEMENT (Questions 32–34)

32. C — A cure notice formally notifies the subcontractor of the specific default, demands corrective action within a defined cure period, and warns that failure to cure may result in termination and backcharges. The cure notice creates a documented record that the GC provided the subcontractor with notice and an opportunity to correct the deficiency before taking further action.

33. B — The general contractor facilitates clash resolution through the BIM coordination process by bringing the affected trades together to evaluate routing alternatives. The GC coordinates the decision based on cost, constructability, accessibility for maintenance, and the impact on other building systems. BIM coordination prevents costly field conflicts.

34. D — When costbased completion (60%) significantly exceeds physical completion (45%), the project is consuming costs faster than it is producing physical progress. This discrepancy indicates potential cost overruns from low productivity, premature material purchases,

frontloaded billing, or higher than estimated unit costs. The contractor must investigate and implement corrective measures.

DOMAIN 8: CONTRACT MANAGEMENT (Questions 35–40)

35. A — The standard one-year warranty requires the contractor to correct defects in workmanship and materials discovered within one year of substantial completion at no cost to the owner. The warranty covers nonconforming work due to the contractor's deficient performance. It does not cover damage caused by the owner's misuse, lack of maintenance, or normal wear and tear.

36. D — A pay-if-paid clause makes the owner's payment an absolute condition precedent — if the owner never pays the GC, the GC has no obligation to pay the subcontractor. A pay-when-paid clause establishes only a timing mechanism — the GC must pay within a reasonable time regardless of owner payment status. This distinction determines whether the sub bears the owner's credit risk.

37. C — When the owner suspends work, the contractor is generally entitled to a time extension equal to the suspension duration. The contractor may also be entitled to compensation for standby costs including idle equipment, supervision, temporary facilities, extended insurance, and other time-dependent costs incurred during the owner-directed suspension period.

38. A — Quantum meruit allows recovery of the reasonable value of services provided when no enforceable contract exists. It prevents unjust enrichment — a property owner who receives the benefit of a contractor's work without paying for it. Quantum meruit claims commonly arise when contracts are found to be void, unenforceable, or when work exceeds the contract scope without a written change order.

39. B — The typical dispute escalation sequence progresses from direct negotiation (informal, no cost) to mediation (facilitated negotiation with a neutral third party, moderate cost) to binding arbitration or litigation (formal adjudication, highest cost). This structure encourages resolution at the earliest and least expensive stage before escalating to more formal proceedings.

40. C — The final unconditional lien waiver permanently releases all of the contractor's mechanics' lien rights against the property. It confirms that the contractor has been paid in full and will not file any future lien claims. The owner requires this document before releasing the final payment to ensure the property title is clear of all contractor claims.

DOMAIN 9: BUSINESS ORGANIZATION (Questions 41–42)

41. D — Disputes between LLC members and the entity are resolved according to the operating agreement's dispute resolution provisions, which may include internal mediation, external arbitration, or buyout procedures. If the operating agreement does not address the dispute, the member may file a lawsuit in Alabama's courts for breach of the operating agreement or seek other judicial remedies.

42. B — An EIN is a unique nine-digit tax identification number assigned by the IRS to identify a business entity for federal tax purposes. It is required for filing tax returns, reporting payroll

taxes, opening business bank accounts, and applying for contractor licenses and bonds. The EIN functions as the business equivalent of a Social Security number.

DOMAIN 10: RISK MANAGEMENT (Questions 43–46)

43. A — When faced with unfamiliar scope, the prudent risk management strategy is to subcontract the work to an experienced specialty contractor. The GC should verify the subcontractor's qualifications and track record, require appropriate insurance and bonding, and closely monitor the installation. Selfperforming unfamiliar work creates unnecessary quality and liability risk.

44. C — Crane operations on or over public roads require a street closure or rightofway permit from the local municipality or ALDOT. The permit application typically requires a traffic control plan, proof of adequate liability insurance, and potentially coordination with law enforcement for traffic management. Public safety on roadways is a primary regulatory concern.

45. D — TRIR is calculated as $(\text{recordable incidents} \times 200,000) \div \text{total hours worked}$. The 200,000 factor represents the hours worked by 100 fulltime employees in one year. The increase from 3.2 to 5.8 indicates a significant deterioration in safety performance requiring immediate investigation, corrective action, and enhanced safety management.

46. B — The contractor must immediately stop the subcontractor's work until valid workers' compensation coverage is reinstated. Allowing an uninsured subcontractor to continue working exposes the GC to statutory liability for employee injuries, violates the subcontract insurance requirements, and may result in Board disciplinary action against the GC's license.

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

47. A — A fall protection plan is a written, sitespecific document prepared by a qualified person that identifies activities where conventional fall protection is infeasible, explains why conventional methods cannot be used, describes alternative protective measures, and includes a schedule for implementing conventional protection as soon as feasible. It is a last resort, not a first option.

48. B — The Clean Air Act prohibits venting any refrigerant to the atmosphere during equipment maintenance, repair, or disposal. CFC refrigerant must be recovered by EPAcertified technicians using approved recovery equipment before any HVAC equipment is dismantled or demolished. Violations carry significant federal fines and potential criminal penalties.

49. D — An emergency rescue plan for trench operations must include specific response procedures, trained rescue personnel or arrangements for emergency services, appropriate rescue equipment available onsite (retrieval systems, ladders, rescue harnesses), communication procedures, and regular training drills. Having 911 as the only plan is insufficient — professional rescue may take 20+ minutes to arrive.

50. B — Unauthorized placement of fill material in a jurisdictional wetland violates Clean Water Act Section 404. Consequences include federal enforcement action, stopwork orders, mandatory wetland restoration at the violator's expense, civil penalties up to tens of thousands of dollars per day of violation, and potential criminal prosecution for knowing violations.