

PRACTICE EXAM 13: ALABAMA BUSINESS & LAW SIMULATION

Time allowed: 120 minutes | Questions: 50 | Passing score: 70% (35 correct)

Instructions for this exam: Each item presents an "If [condition], then..." premise. Apply the governing rule, statute, or principle to the specified condition and select the option that states the correct consequence.

1. If a contractor performs commercial work in Alabama valued at \$75,000 without holding the appropriate Alabama General Contractor license, then the contract is:

- A. Fully enforceable provided the work meets code standards and the owner accepted the work
- B. Voidable at the owner's option but enforceable upon ratification by the Board
- C. Subject only to a civil penalty with the contractor's right to payment otherwise preserved
- D. Unenforceable by the unlicensed contractor, who cannot sue to recover payment for the work performed

2. If the qualifying party (QP) for a licensed Alabama contractor resigns on March 1, then the licensee must designate a replacement QP no later than:

- A. April 30 (within 60 days of departure)
- B. March 15 (within 14 days of departure under Board rules)
- C. September 1 (within 6 months of departure under Board rules)
- D. March 2 of the following year (at the next annual renewal cycle)

3. If a contractor's bid limit is reviewed at renewal and the contractor's working capital has declined materially since the prior period, then the Board:

- A. Must automatically revoke the license without further review of financials submitted
 - B. May reduce the contractor's bid limit consistent with the financial position presented
 - C. Has no jurisdiction to adjust bid limit based on working capital changes from year to year
 - D. Must increase the bid limit to allow the contractor to recover from financial hardship promptly
4. If a contractor signs a bid for a \$200,000 commercial project but did not hold an Alabama General Contractor license at the time of bid submission, then under Alabama law:
- A. The bid is valid if a license is obtained before contract award and execution
 - B. The contract becomes enforceable once the contractor pays the licensing fee in full
 - C. The owner is required to award the bid because the contractor has bid in good faith
 - D. The bid is invalid and the contractor cannot enforce any resulting contract
5. If a contractor licensed in Georgia wishes to perform commercial construction in Alabama valued at \$100,000, then the contractor:
- A. Is automatically authorized to perform the work under reciprocal state recognition rules
 - B. May perform the work using only the Georgia license for up to 12 months after entry
 - C. Must register the Georgia license with the Alabama Department of Revenue only
 - D. Must obtain an Alabama General Contractor license meeting all Alabama requirements before performing the work
6. If a contractor passes the NASCLA Accredited Commercial Building Contractor examination, then the contractor:
- A. Has satisfied the trade portion of the Alabama license but must still pass the Alabama Business and Law examination
 - B. Has satisfied both the trade and Business and Law examinations for Alabama and most other states
 - C. Has been credentialed only for federal contracting projects within Alabama under FAR
 - D. Has been waived from all examination requirements in any of the 17 participating jurisdictions

7. If the Alabama Licensing Board issues a written notice of charges and a hearing date, then the contractor:

- A. Must immediately cease all contracting activity until the hearing is concluded by the Board
- B. Has no right to legal representation at the hearing under Alabama administrative law
- C. Must pay the maximum civil penalty before the hearing date is set by the Board
- D. Has the right to appear, present evidence, and be represented by counsel under due process protections

8. If a contractor is found by the Board to have committed a single violation, then the maximum civil penalty the Board may impose is:

- A. \$1,000 per violation under Alabama statutory limits applied to first offenses
- B. \$10,000 per violation
- C. \$50,000 per violation under Alabama statutory limits applied to repeat offenses
- D. \$100,000 per violation under federal limits applied to interstate work

9. If a worker is properly classified as an independent contractor under the IRS common law test and is paid \$2,500 during the calendar year, then the payer must:

- A. Issue Form 1099-NEC to the contractor and file the form with the IRS by January 31
- B. Issue Form W-2 to the contractor and withhold federal income tax from each payment made
- C. Make no information return because the amount is below the \$5,000 threshold for reporting
- D. File Form 941 quarterly to report contractor payments to the IRS along with regular wages

10. If an Alabama employer pays \$15,000 in total wages during a calendar quarter, then with respect to FUTA the employer:

- A. Is exempt from FUTA because the quarterly wage total is below the federal threshold for liability
- B. Has become subject to FUTA (the \$1,500 quarterly wage threshold has been exceeded)
- C. Pays FUTA only on wages above \$15,000 per quarter under federal liability rules

D. Must withhold FUTA from each employee's paycheck and remit on a weekly basis

11. If an employee earns \$250,000 in wages during the year from a single employer, then the additional 0.9% Medicare surtax applies to:

- A. All wages from the first dollar earned in the calendar year by the employee
- B. Wages from \$147,000 upward under current federal law for the employee and employer
- C. Wages above \$200,000 (employee-only obligation; the employer share is not increased)
- D. Wages above \$250,000 (employer and employee each pay the additional surtax share)

12. If an employer fails to deposit withheld federal income tax and the employee share of FICA, then under federal law:

- A. The Trust Fund Recovery Penalty may be asserted personally against responsible persons who willfully failed to remit
- B. The employer's only exposure is to interest on the unpaid amount with no personal liability assessed
- C. The Trust Fund Recovery Penalty applies only to the employer's matching share of FICA owed
- D. The penalty is automatically waived if the employer files Form 941 on time for the quarter

13. If a new employee starts work on Monday, then Form I-9 employment eligibility verification must be completed no later than:

- A. The same Monday before the employee begins any work on the job site
- B. The end of the second business day following the start date of employment
- C. The end of the third business day following the start date
- D. The end of the second week following the start date of employment

14. If an Alabama employer pays employee wages of \$9,000 to a single employee for the year, then with respect to SUTA:

- A. SUTA applies only to the first \$7,000 of wages under federal-aligned rules for state programs
- B. SUTA applies to all \$9,000 paid to the employee in the year under Alabama state rules
- C. The employer is exempt because no Alabama employer pays SUTA on wages below \$10,000
- D. SUTA applies to the first \$8,000 of wages (the Alabama SUTA wage base) with the remaining \$1,000 not subject to SUTA

15. If a contractor materially breaches a contract and the owner provides written notice and a contractual cure period, then if the contractor fails to cure within the period:

- A. The owner must offer a second cure period of the same duration before any contractual action
- B. The owner may terminate the contract for cause and engage a replacement contractor
- C. The owner is barred from termination unless the breach causes more than \$25,000 in damages
- D. The owner must continue performance and pursue damages only through arbitration provisions

16. If an owner terminates a construction contract for convenience under a standard contract provision, then the owner must:

- A. Pay only the contract price minus the value of work not yet performed by the contractor
- B. Pay no compensation because the termination right is unlimited under the contract
- C. Pay for work performed plus the agreed percentage of unperformed profit and reasonable termination costs
- D. Refund all retainage withheld through the date of termination plus statutory interest

17. If a liquidated damages clause provides \$2,000 per day for delay in a contract where actual damages are difficult to estimate at signing, then under Alabama law the clause is:

- A. Per se unenforceable as a penalty regardless of contract value or anticipated damages amount
- B. Enforceable only if the contractor agrees in writing again after the delay actually occurs
- C. Enforceable only on public works projects subject to the Little Miller Act bonding rules

D. Enforceable if the \$2,000 amount bears a reasonable relationship to anticipated damages at the time of contract formation

18. If a subcontract contains an enforceable pay-if-paid clause and the owner becomes insolvent and never pays the prime contractor for the sub's work, then:

- A. The prime must pay the sub within 30 days regardless of owner non-payment status
- B. The sub is automatically subrogated to the prime's claim against the owner under state law
- C. The credit risk of owner default has been shifted to the subcontractor, who may have no contractual claim against the prime
- D. The clause is automatically void under Alabama public policy and the prime must pay the sub in full

19. If the owner directs the contractor to perform additional work but the parties cannot agree on the cost or schedule impact, then under standard AIA contract practice:

- A. The contractor must perform the work without payment until the parties later agree on a price
- B. The contractor may refuse to perform the additional work until a written change order is signed
- C. The owner may issue a Construction Change Directive, requiring the contractor to proceed while pricing is reconciled later
- D. The change must be litigated before any work proceeds on the additional scope of the project

20. If a contract for the sale of real property is entered into orally between two parties, then under the Alabama Statute of Frauds the contract is:

- A. Fully enforceable provided both parties confirm the terms in court testimony under oath
- B. Enforceable only if the price is below \$5,000 in total contract value under state law
- C. Enforceable only if performance has been completed in full by one party already
- D. Unenforceable unless the agreement is in writing and signed by the party to be charged

21. If a public construction project in Alabama is valued at \$75,000, then under the Alabama Public Works Law (Title 39) the project:

- A. Must be advertised for competitive bid (the \$50,000 threshold has been exceeded)
- B. Is exempt from competitive bidding because the value is below \$100,000 by state rule
- C. Must be procured only through negotiated contract with a NASCLA-credentialed contractor
- D. Must be procured through emergency procurement procedures regardless of bid law

22. If a bid is opened publicly on the announced date and a contractor discovers a \$25,000 clerical error in its bid total, then under the Alabama bid mistake doctrine the contractor may:

- A. Seek to withdraw the bid by promptly notifying the awarding authority in writing with documentation of the error
- B. Revise the bid amount upward to correct the error and remain eligible for award by the agency
- C. Withdraw without any notice and forfeit only the bid bond as agreed in the bid documents
- D. Demand the contract be awarded at the corrected (higher) bid price under the doctrine

23. If a contractor's bid for a public Alabama project requires a 5% bid bond and the contractor's bid total is \$400,000, then the bid bond amount is:

- A. \$4,000 of the bid total submitted to the awarding agency by the contractor
- B. \$40,000 of the bid total submitted to the awarding agency by the contractor
- C. \$20,000
- D. \$200,000 of the bid total submitted to the awarding agency by the contractor

24. If a public Alabama construction contract is awarded at \$1,000,000 and requires 100% performance and payment bonds, then the contractor must furnish:

- A. A performance bond of \$50,000 and a payment bond of \$50,000 to the awarding authority
- B. A performance bond of \$1,000,000 and a payment bond of \$1,000,000
- C. A combined performance/payment bond of \$500,000 to the awarding authority
- D. A performance bond of \$100,000 and no payment bond is required under the Little Miller Act

25. If a state purchase of office equipment by an Alabama state agency is valued at \$20,000, then under the Alabama Competitive Bid Law (Title 41-16) the purchase:

- A. Must be procured through competitive bidding (the \$15,000 threshold has been exceeded)
- B. Is exempt from competitive bidding because office equipment is excluded by statute
- C. Must be procured through a sole source contract only under state agency policy
- D. Must be procured under the Public Works Law (Title 39) at the \$50,000 threshold instead

26. If a contractor uses the percentage-of-completion method and has incurred \$300,000 of costs on a contract with \$1,000,000 total estimated costs and a \$1,250,000 contract price, then the revenue earned to date is:

- A. \$250,000 (incurred costs less estimated profit margin)
- B. \$375,000 (30% complete \times \$1,250,000 contract price)
- C. \$1,000,000 (full contract revenue recognized at start)
- D. \$625,000 (50% of total contract price by approximation)

27. If a contractor's billings to date on a project exceed costs incurred plus earned profit, then the position is reported on the balance sheet as:

- A. A long-term asset titled "earned but unbilled revenue on uncompleted contracts"
- B. An equity item titled "retained earnings on uncompleted contracts under GAAP"
- C. A current liability titled "billings in excess of costs and estimated earnings on uncompleted contracts"
- D. An income statement item titled "deferred contract gain under accounting standards"

28. If a contractor has current assets of \$800,000 and current liabilities of \$500,000, then working capital is:

- A. \$300,000
- B. \$1,300,000 (the sum of current assets and current liabilities reported)

- C. \$500,000 (equal to current liabilities by definition under accounting)
- D. \$800,000 (equal to current assets by definition under accounting)

29. If a subcontractor signs a conditional waiver and release upon progress payment but the prime's payment check is dishonored, then:

- A. The waiver does not take effect (because payment was not actually received) and the sub's lien rights are preserved
- B. The waiver is fully effective from the moment of signing regardless of subsequent payment status
- C. The sub is automatically subrogated to the prime's bond rights against the surety on the project
- D. The sub must wait until the next pay cycle before challenging the waiver under state lien law

30. If a contractor has total assets of \$2,500,000 and total liabilities of \$1,800,000, then net worth equals:

- A. \$4,300,000 (the sum of assets and liabilities on the balance sheet)
- B. \$700,000
- C. \$1,800,000 (equal to total liabilities by definition of net worth)
- D. \$2,500,000 (equal to total assets by definition of net worth)

31. If a non-exempt employee earns \$20 per hour and works 50 hours in a workweek, then under the Fair Labor Standards Act gross wages for the week are:

- A. \$1,000 (50 hours \times \$20 with no overtime premium owed under federal law)
- B. \$1,500 (50 hours \times \$30 at full premium rate for all hours worked)
- C. \$1,100 (40 hours \times \$20 plus 10 hours \times \$30 overtime premium rate)
- D. \$800 (40 hours \times \$20 with no overtime since the workweek is short)

32. If an Alabama contractor has 6 regular employees, then under Alabama Workers' Compensation Law the employer:

- A. Is exempt because the 10-employee threshold has not been reached under state law
- B. Must carry workers' compensation insurance (the 5-employee threshold has been exceeded)
- C. May elect coverage but is not required to provide it under Alabama state law
- D. Must carry coverage only for employees performing skilled trade work under the law

33. If a contractor has 18 employees on the regular payroll, then under federal employment discrimination law:

- A. Both Title VII and the ADEA apply at this headcount under federal employment rules
- B. Title VII applies (15+ employees) but the ADEA does not yet apply (20-employee threshold not reached)
- C. Only the ADEA applies because of the age-based protection provisions of federal law
- D. Neither Title VII nor the ADEA applies because the headcount is below 20 employees

34. If a new employee begins work on October 1, then E-Verify submission must be completed:

- A. Before the employee begins work, with the I-9 completed later in the second week
- B. Within 30 days of the start date under federal employment verification rules
- C. Generally by the third business day following the start date, supplementing the I-9
- D. Only at the next annual employer audit conducted by federal immigration authorities

35. If an Alabama contractor maintains a workforce of 60 employees within a 75-mile radius and an employee has worked 1,300 hours over the past 12 months, then for FMLA purposes the employee:

- A. Is not eligible because Alabama is excluded from FMLA coverage under state law
- B. Is eligible for up to 6 weeks of unpaid leave only under federal law as applied
- C. Is eligible for up to 12 weeks of unpaid leave (the 1,250-hour and 50-employee thresholds are met)
- D. Is eligible for 12 weeks of paid leave under federal law as applied to the employer

36. If a contractor's employee is injured on the job site while performing covered work and workers' compensation applies, then:

- A. The contractor's CGL policy covers the employee's claim as a primary insurance response
- B. Workers' compensation is the exclusive remedy against the employer, and the CGL policy excludes the claim under the employer's liability exclusion
- C. The injured employee may sue the employer in tort to recover damages for the injury and lost wages
- D. The employee must obtain a waiver from the Board before filing the claim under state law

37. If a builders' risk policy is in force during construction and a fire destroys \$300,000 of materials installed on the project, then:

- A. The CGL policy responds to the loss as the primary coverage under standard policy forms
- B. The owner's homeowners policy responds first under standard property insurance rules
- C. Neither policy responds because materials are excluded from coverage under standard forms
- D. The builders' risk policy responds to the loss because the policy covers physical damage to the project under construction, including installed materials

38. If the parties to a construction contract include a mutual waiver of subrogation supported by a property insurance policy that allows the waiver, then:

- A. Neither party's property insurer may pursue recovery against the other party for an insured loss within the scope of the waiver
- B. The waiver applies only to claims under \$10,000 in covered loss under standard insurance policy provisions
- C. The waiver is automatically void as against Alabama public policy under the construction lien act and related laws
- D. The waiver applies only to claims arising after substantial completion of the project under standard practice

39. If a contractor identifies a project risk that has high probability but low severity, then a typical risk management response is:

- A. Pure risk avoidance by refusing to bid the project at any price offered by the owner
- B. Risk reduction through procedures, training, or controls to lower frequency or severity
- C. Risk transfer through a separate insurance policy that responds only to that specific risk
- D. Risk retention with no further action because the risk is acceptable as is on most projects

40. If a work-related fatality occurs on a contractor's job site at 9:00 AM on Tuesday and the employer is notified of the death at 11:00 AM the same day, then the employer must report the fatality to OSHA no later than:

- A. 7:00 PM Tuesday (within 8 hours of when the employer learned of the death)
- B. 11:00 AM Wednesday (within 24 hours of when the employer learned of the death)
- C. End of the calendar week following the fatality on the job site under OSHA rules
- D. By the end of the next quarterly OSHA reporting cycle under federal recordkeeping rules

41. If a worker is hospitalized in-patient as a result of a workplace injury on Friday and the employer learns of the hospitalization Friday evening, then the employer must report to OSHA no later than:

- A. By 2:00 AM Saturday (within 8 hours of learning) under OSHA emergency rules
- B. Friday evening before midnight regardless of when the employer learned of the event
- C. By Saturday evening (within 24 hours of learning of the hospitalization)
- D. Within 7 calendar days under OSHA recordkeeping rules for routine recordable events

42. If a recordable work-related injury occurs on July 15, then the employer must enter the injury on the OSHA 300 Log no later than:

- A. July 22 (within 7 calendar days of learning of the recordable injury)
- B. July 16 (within 1 calendar day of the injury under OSHA recordkeeping rules)
- C. End of the calendar quarter following the injury under OSHA recordkeeping rules
- D. February 1 of the following year on Form 300A under OSHA annual posting rules

43. If a construction project disturbs 2 acres of land, then under the NPDES Construction General Permit framework the project:

- A. Is exempt from NPDES coverage because it is below the 5-acre disturbance threshold
- B. Requires only an oral notification to ADEM before construction begins on the site
- C. Falls under federal solid waste regulations rather than stormwater regulations under EPA rules
- D. Requires development of a SWPPP and filing of a Notice of Intent (the 1-acre threshold has been exceeded)

44. If an activity on a CPM schedule has 5 days of total float, then a delay of 3 days to that activity will:

- A. Delay the project completion date by 3 days because all activities affect the critical path
- B. Delay the project completion date by 8 days due to the additive nature of float on activities
- C. Push the activity onto the critical path immediately and require schedule recovery measures
- D. Not delay the project completion date (the delay is absorbed within the available float)

45. If a public Alabama construction contract withholds 10% retainage on progress payments and the project reaches substantial completion, then under standard contract practice the bulk of retainage is:

- A. Forfeited entirely to the owner upon substantial completion of the contracted work
- B. Held until one year after final acceptance under Alabama statute on construction retainage
- C. Released at substantial completion, with the remainder retained to secure punch list completion
- D. Released in equal monthly installments over the warranty period following final acceptance

46. If a project reaches substantial completion on June 30 with a written certificate issued, then the consequences typically include:

- A. Continued accrual of liquidated damages until punch list is closed and final inspection occurs
- B. Automatic conversion to a cost-plus contract for any remaining work after substantial completion
- C. Suspension of the contractor's workers' compensation coverage until final acceptance is reached

D. Stopping of liquidated damages, start of the warranty period, and release of bulk retainage subject to punch list completion

47. If an original contractor with a direct contract with the owner last furnishes labor or materials on January 15, then the verified lien statement must be filed in the probate court of the county where the property is located no later than:

- A. July 15 (within 6 months of the last item furnished)
- B. April 15 (within 90 days of the last item furnished under state lien law)
- C. January 15 of the following year (within 1 year of the last item furnished under state law)
- D. February 15 (within 30 days of the last item furnished under state lien law rules)

48. If a materialman without a direct contract with the owner intends to preserve full lien rights, then written notice to the owner must be given:

- A. Within 30 days after furnishing the materials to the construction project on the site
- B. Within 6 months after the last item furnished to the construction project under state law
- C. Before furnishing the materials to the project
- D. At the time of lien statement filing in probate court of the county where property sits

49. If a contractor forms a multi-member LLC in Alabama and makes no entity classification election with the IRS, then for federal tax purposes the LLC is taxed by default as:

- A. A C corporation under Subchapter C of the Internal Revenue Code on all profits earned
- B. A partnership with profits and losses passing through to members on their personal returns
- C. A sole proprietorship reported on the principal member's Schedule C of Form 1040
- D. A disregarded entity reported on the managing member's Form 1120 under federal rules

50. If a newly formed C corporation in Alabama wishes to elect S corporation status, then:

- A. The election is automatic upon filing the Certificate of Incorporation with the Secretary of State
- B. The election is made by filing IRS Form 8832 with the Department of Treasury for entity classification
- C. No election is required because all small Alabama corporations are S corporations by default rule
- D. The election requires unanimous shareholder consent and filing of IRS Form 2553 within the statutory window

PRACTICE EXAM 13: ANSWER KEY AND EXPLANATIONS

1. D — The contract is unenforceable by the unlicensed contractor because Alabama requires a General Contractor license for commercial work at or above \$50,000. The \$75,000 project crosses that threshold, and Alabama courts will not enforce contracts in favor of unlicensed contractors, meaning the contractor cannot sue to recover payment even for completed quality work.
2. A — The 60-day statutory window starts on the QP's departure on March 1, putting the deadline at April 30 for designation of a replacement QP. Failure to designate a qualified replacement within this window places the license in jeopardy, so timing the response within the window is critical to preserving licensure.
3. B — The Board's bid limit determination is grounded in the financial position presented at each renewal, including working capital and net worth. A material decline in working capital may result in a reduced bid limit consistent with the contractor's diminished financial capacity, since the bid limit is calibrated to financial strength.
4. D — Alabama law requires that the contractor be licensed at the time of bid submission for any project crossing the General Contractor jurisdictional threshold. A bid submitted without the required license is invalid at inception, and no resulting contract is enforceable by the unlicensed bidder.
5. D — Alabama does not have automatic reciprocity that permits an out-of-state license to authorize commercial work above the \$50,000 threshold. The Georgia contractor must obtain an Alabama General Contractor license meeting all Alabama requirements (application, financial review, examinations, fee) before performing the work.
6. A — The NASCLA Accredited Commercial Building Contractor examination is recognized as the trade exam in 17 participating jurisdictions including Alabama. It does not satisfy any state's Business and Law requirement, so an Alabama-bound contractor must still pass the Alabama Business and Law examination separately.
7. D — The Alabama Administrative Procedure Act and Board procedure provide the contractor with due process rights at disciplinary hearings, including the right to notice, to appear, to present evidence, to cross-examine witnesses, and to be represented by counsel. These protections are foundational and apply regardless of the severity of the alleged violation.
8. B — The Alabama Licensing Board for General Contractors is authorized by statute to impose civil penalties of up to \$10,000 per violation. The Board may also suspend or revoke licensure, but the per-violation civil penalty cap is set at \$10,000 under Alabama law.
9. A — Form 1099-NEC reports nonemployee compensation of \$600 or more paid to independent contractors in a calendar year. The \$2,500 payment is well above the \$600 threshold, and the form must be furnished to the payee and filed with the IRS by January 31 of the following year.

10. B — FUTA applies to any employer that pays \$1,500 or more in wages during any calendar quarter or employs at least one person on at least one day in each of 20 different calendar weeks. The \$15,000 quarterly total far exceeds the \$1,500 threshold, making the employer subject to FUTA for the year.
11. C — The Additional Medicare Tax of 0.9% applies to wages above \$200,000 (for an unmarried individual) under the Affordable Care Act provisions. The surtax is an employee-only obligation; the employer does not match the additional 0.9% but is responsible for withholding it on wages above the threshold.
12. A — The Trust Fund Recovery Penalty under IRC §6672 permits the IRS to assert personal liability against responsible persons who willfully fail to collect, account for, or remit trust fund taxes (withheld income tax and the employee share of FICA). The TFRP can reach officers, owners, and other responsible persons personally and is one of the most aggressive enforcement tools in federal employment tax administration.
13. C — Section 1 of Form I-9 must be completed by the employee no later than the first day of employment, and Section 2 must be completed by the employer within three business days of the employee's start date. The Monday start places the Section 2 deadline at the end of the third business day following the start.
14. D — The Alabama SUTA wage base is \$8,000 per employee per calendar year. For an employee earning \$9,000, SUTA tax applies to the first \$8,000 of wages and the remaining \$1,000 is not subject to SUTA, because wages above the state wage base are not taxable for SUTA purposes.
15. B — The standard for-cause termination clause requires written notice of material breach and a contractual cure period, after which the owner may terminate if the contractor fails to cure. The owner may then engage a replacement contractor and pursue the original contractor for excess completion costs under the contract.
16. C — Termination for convenience clauses typically require the owner to pay for work performed through the termination date plus a defined percentage of unperformed profit and reasonable termination costs (demobilization, restocking fees, etc.). This compensation distinguishes termination for convenience from termination for cause, where no profit on unperformed work is owed.
17. D — Under Alabama law a liquidated damages clause is enforceable if the amount represents a reasonable estimate of anticipated damages at the time of contract formation and actual damages would be difficult to ascertain. The \$2,000 per day rate qualifies if it bears a reasonable relationship to anticipated delay damages; if the amount is grossly disproportionate, the clause is treated as an unenforceable penalty.
18. C — A true pay-if-paid clause creates a condition precedent and shifts the credit risk of owner default to the subcontractor. If the owner becomes insolvent and never pays the prime, the condition precedent is never satisfied and the sub may have no contractual claim against the prime, demonstrating why subs should resist or carefully negotiate these clauses.
19. C — Under standard AIA documents the owner may issue a Construction Change Directive (CCD) when the owner and contractor cannot agree on price or time impact of a directed change. The CCD requires the contractor to proceed with the directed work; pricing and time impact are reconciled later, often through audit of actual costs.
20. D — The Alabama Statute of Frauds requires that contracts for the sale of real property be in writing and signed by the party to be charged. Oral contracts for real property sales are unenforceable under the statute, although limited equitable exceptions (such as part performance) may apply in narrow circumstances.

21. A — The Alabama Public Works Law (Title 39) requires advertised competitive bidding for public construction projects at or above \$50,000. The \$75,000 project crosses the threshold, so the awarding authority must follow the advertised competitive bid process unless a statutory exception applies.
22. A — Under the Alabama bid mistake doctrine, a bidder may seek to withdraw a bid before acceptance when the mistake is a material clerical or mathematical error and the bidder gives prompt written notice with documentation to the awarding authority. The doctrine protects bidders against unconscionable enforcement of clear computational errors but does not permit upward bid revision.
23. C — A 5% bid bond on a \$400,000 bid equals $\$400,000 \times 0.05 = \$20,000$. The bid bond guarantees that the awarded bidder will execute the contract and furnish the required performance and payment bonds; if the bidder defaults, the bond responds up to the bond amount.
24. B — Performance and payment bonds at 100% of contract value mean each bond equals the full contract amount. For a \$1,000,000 contract, the performance bond is \$1,000,000 (guaranteeing completion) and the payment bond is \$1,000,000 (guaranteeing payment to subs and suppliers), as required by Alabama's Little Miller Act framework.
25. A — The Alabama Competitive Bid Law (Title 41-16) requires competitive bidding for state and local procurement of goods, equipment, and services at or above \$15,000. The \$20,000 office equipment purchase crosses the threshold and must be procured through competitive bidding unless a statutory exception applies.
26. B — Under percentage-of-completion using the cost-to-cost method, percent complete equals costs incurred to date divided by total estimated costs at completion: $\$300,000 \div \$1,000,000 = 30\%$. Earned revenue equals $30\% \times \$1,250,000$ contract price = \$375,000, which represents the revenue to be recognized to date on the project.
27. C — When billings to date exceed costs incurred plus earned profit (calculated under percentage-of-completion), the excess is reported on the balance sheet as a current liability titled "billings in excess of costs and estimated earnings on uncompleted contracts." This overbilling position reflects an obligation to deliver future work for which the contractor has already billed.
28. A — Working capital equals current assets minus current liabilities: $\$800,000 - \$500,000 = \$300,000$. Working capital is a primary measure of short-term financial strength and liquidity reviewed by sureties when underwriting bonding capacity and by the Board when reviewing bid limits.
29. A — A conditional waiver and release is effective only upon actual receipt of the payment specified. If the prime's payment check is dishonored, payment was never actually received, the waiver does not take effect, and the subcontractor's lien rights remain preserved. This is the precise protection conditional waivers are designed to provide.
30. B — Net worth equals total assets minus total liabilities: $\$2,500,000 - \$1,800,000 = \$700,000$. Net worth represents the ownership equity available to absorb business risk and is a primary measure used by sureties, the Licensing Board, and lenders to assess overall financial strength.
31. C — Under the FLSA, non-exempt employees must be paid overtime at 1.5 times the regular rate for hours over 40 in a workweek. At \$20 per hour, the regular pay for 40 hours is $40 \times \$20 = \800 , and the overtime premium pay for 10 hours is $10 \times \$30 = \300 , for a total of \$1,100 in gross weekly wages.
32. B — Alabama workers' compensation coverage is mandatory once an employer regularly employs 5 or more employees. With 6 regular employees, the contractor has crossed the threshold and must

carry workers' compensation insurance covering all employees, since the threshold is by regular headcount of the workforce.

33. B — Title VII applies at 15 or more employees, while the ADEA applies at 20 or more employees. With 18 employees, Title VII applies (15-employee threshold crossed) but the ADEA does not yet apply (20-employee threshold not reached), so the contractor must comply with Title VII but is not yet within ADEA jurisdiction.
34. C — E-Verify submission is required for Alabama employers under the Beason-Hammon Act and generally must be initiated by the third business day following the start date, supplementing rather than replacing the I-9. The I-9 is the federal documentation form; E-Verify is the federal electronic verification system that compares I-9 data against DHS and SSA records.
35. C — FMLA eligibility requires the employee to have worked for the employer for at least 12 months and at least 1,250 hours over the past 12 months at an employer with 50 or more employees within a 75-mile radius. The employee at 1,300 hours and the 60-employee workforce meet both thresholds, qualifying for up to 12 weeks of unpaid leave.
36. B — Workers' compensation is the exclusive remedy against the employer for workplace injuries under Alabama statute, eliminating tort liability between employee and employer for the covered injury. The CGL policy's employer's liability exclusion prevents CGL from responding to employee claims, ensuring the two coverages do not overlap.
37. D — Builders' risk insurance covers physical damage to the project under construction, including materials installed and stored on site, against perils such as fire, theft, and vandalism. A \$300,000 fire loss to installed materials is exactly the type of loss the builders' risk policy is designed to cover during the construction phase.
38. A — A mutual waiver of subrogation supported by a property insurance policy that permits the waiver bars the insurer from pursuing subrogation against the waived party after paying its insured's claim. This reciprocal allocation of risk to insurance carriers is standard in construction contracts to avoid intramural litigation between parties to the construction enterprise.
39. B — Risks with high probability but low severity are typically best addressed through risk reduction — implementing procedures, training, or controls to reduce frequency or severity rather than transferring the risk through insurance (often costly for frequent low-severity claims) or retaining without action. Risk reduction is one of the four primary risk management strategies along with avoidance, transfer, and retention.
40. A — Under 29 CFR 1904.39 the employer must report a work-related fatality to OSHA within 8 hours of when the employer learns of the death. Learning of the death at 11:00 AM Tuesday makes the deadline 7:00 PM Tuesday — the 8-hour clock runs from knowledge, not from the time of death.
41. C — Under 29 CFR 1904.39, in-patient hospitalizations, amputations, or losses of an eye must be reported to OSHA within 24 hours of when the employer learns of the event. Friday evening notification gives the employer until Saturday evening to make the report — the 24-hour window runs from when the employer first learned of the qualifying event.
42. A — Under OSHA recordkeeping rules at 29 CFR 1904.29, the employer must record each recordable injury or illness on the OSHA 300 Log within 7 calendar days of receiving information that a recordable injury or illness occurred. A July 15 incident must be logged no later than July 22.
43. D — The NPDES Construction General Permit covers construction activities that disturb 1 acre or more of land (including projects that disturb less but are part of a larger common plan totaling

- 1+ acre). A 2-acre disturbance triggers the requirement to develop a SWPPP and file a Notice of Intent with ADEM for permit coverage.
44. D — Total float is the amount of time a non-critical activity can be delayed without delaying the overall project completion date. With 5 days of total float, a 3-day delay is fully absorbed within the available float and does not delay project completion, although it reduces the remaining float on that activity to 2 days.
 45. C — Standard Alabama public construction practice releases the bulk of retainage upon substantial completion (when the owner can occupy and use the project for its intended purpose), with the remainder retained as security for completion of the punch list. Final retainage is released after punch list completion and final acceptance of the work.
 46. D — Substantial completion is the milestone triggering numerous contractual consequences simultaneously: liquidated damages stop accruing because the owner can use the project for its intended purpose, the warranty period begins running, and the bulk of retainage is released subject to punch list completion. The certificate of substantial completion is the formal trigger document.
 47. A — Under Alabama mechanic's lien law, an original contractor with a direct contract with the owner must file the verified lien statement within 6 months of the last item furnished. A last item furnished on January 15 places the filing deadline at July 15 of the same year, with filing in the probate court of the county where the property is located.
 48. C — A materialman without a direct contract with the owner must give written notice to the owner before furnishing materials to preserve full lien rights under Alabama law. The pre-furnishing notice is the critical step that distinguishes the full-lien materialman from one with only limited lien rights against unpaid balances owed to the prime.
 49. B — A multi-member LLC that makes no entity classification election with the IRS is taxed by default as a partnership under federal tax rules, with profits and losses passing through to members on their personal returns. A single-member LLC without election is taxed as a disregarded entity; the LLC may elect corporate taxation by filing Form 8832 if desired.
 50. D — An S corporation election requires unanimous consent of all shareholders and filing of IRS Form 2553 within the statutory window (generally by the 15th day of the third month of the tax year to which the election is to apply). Once filed and accepted, the election converts federal tax treatment from C corporation to pass-through under Subchapter S.