

PRACTICE EXAM 19: ALABAMA BUSINESS & LAW SIMULATION

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

Instructions for this exam: Each item presents a complex scenario crossing multiple Business and Law domains. Select the option that identifies the SINGLE MOST CRITICAL action or priority that must be addressed FIRST under Alabama law.

1. An unlicensed Alabama contractor completes a \$90,000 residential remodel using three employees and six subcontractors. The homeowner refuses to pay the final \$30,000 balance, one subcontractor has filed a lien against the property, and the Alabama Licensing Board has opened an investigation. The contractor asks counsel which issue to address first. Which action is the SINGLE MOST CRITICAL priority?

- A. File a mechanic's lien immediately in probate court to secure the \$30,000 balance owed before the filing window expires under state lien law
- B. Cease all further unlicensed contracting activity immediately and retain counsel — because an unlicensed contract is unenforceable in Alabama, the payment claim has no legal foundation, and continued unlicensed work compounds Board exposure with every additional project
- C. Respond to the Board investigation first by submitting a written explanation of the circumstances under state licensing law as applied to open investigations
- D. File suit against the homeowner for unjust enrichment to recover the unpaid balance using equitable theories of recovery under state contract law

2. A licensed Alabama general contractor's qualifying party resigns effective immediately on March 10. The contractor has three active projects totaling \$900,000, four pending bids closing March 25, and an annual license renewal due June 15. Which action is the SINGLE MOST CRITICAL priority?

- A. Begin immediate identification, qualification, and Board designation of a replacement QP within the 60-day statutory window expiring May 9 — because without a designated QP within that window the license itself is jeopardized, rendering active projects, pending bids, and the renewal effort all moot
- B. Submit the four pending bids by March 25 to preserve revenue flow and maintain the contractor's project pipeline under standard bidding practice
- C. Prepare and submit the annual license renewal package early to meet the June 15 deadline under state licensing law as applied to annual renewals
- D. Contact the departing QP to negotiate a 45-day extension of services while identifying a permanent replacement under standard contracting practice for interim QP arrangements

3. An Alabama contractor holds a license with a \$750,000 bid limit. The contractor submits a \$680,000 bid on a public project, is awarded the contract, and during mobilization discovers that a key subcontractor has withdrawn its bid, increasing total projected cost to \$810,000. The contractor's surety has confirmed bond capacity. Which action is the **SINGLE MOST CRITICAL** priority?

- A. Stop work immediately and notify the awarding authority that the project is over budget under state public works law as applied to cost overruns after award
- B. File a change order request with the awarding authority to increase the contract price to \$810,000 based on subcontractor bid withdrawal under state contract law as applied to post-award pricing
- C. Proceed with performance of the \$680,000 lump sum contract — because the lump sum pricing structure assigns cost risk to the contractor after award, the sub withdrawal does not entitle the contractor to additional compensation, and mobilization is the critical immediate step
- D. Identify and retain a replacement subcontractor at market pricing to fill the scope gap, document the cost difference, and proceed with performance of the contract at the \$680,000 lump sum price — because the contractor bears cost overrun risk under the lump sum structure and performance must continue to avoid default

4. A NASCLA-credentialed contractor from Georgia wishes to bid on a \$2 million Alabama commercial project. The contractor has Alabama workers' compensation coverage, has retained Alabama counsel, and has prepared full bid documents. Which action is the **SINGLE MOST CRITICAL** priority before submitting the bid?

- A. Purchase a builders' risk policy for the Alabama project before submitting the bid under state insurance requirements as applied to commercial construction

B. Register the Georgia entity with the Alabama Secretary of State as a foreign corporation authorized to do business in Alabama under state corporate law

C. Apply for and obtain an Alabama General Contractor license — including financial statements, QP designation, and passage of the Alabama Business and Law examination — because the NASCLA credential satisfies only the trade portion of Alabama licensure and the Business and Law examination must be passed before any bid above the threshold is valid

D. File an Alabama Department of Revenue tax registration before bid submission under state tax law as applied to out-of-state contractors bidding on Alabama projects

5. A licensed Alabama contractor is simultaneously facing: a \$60,000 mechanic's lien filing deadline against a non-paying owner expiring in 3 days, an OSHA complaint inspection scheduled in 10 days, a workers' compensation audit notice from the carrier due in 21 days, and an Alabama Licensing Board renewal due in 45 days. Which action is the SINGLE MOST CRITICAL immediate priority?

A. Begin gathering documentation for the workers' compensation audit to ensure timely and accurate response to the carrier's 21-day notice

B. File the verified mechanic's lien statement in probate court before the 3-day deadline expires — because the lien filing deadline is jurisdictional and unforgiving, missing it permanently forfeits the secured claim against the property, while the other obligations have longer windows available

C. Prepare a comprehensive OSHA inspection readiness package for the inspection scheduled in 10 days under federal occupational safety law

D. Submit the Board renewal application 45 days in advance to avoid any possibility of lapse under state licensing law as applied to timely renewals

6. A licensed Alabama contractor's Board renewal is due in 30 days. The contractor's financial statements show net worth of \$180,000, the contractor's current authorized bid limit is \$500,000, and the contractor wishes to seek an increase in the bid limit to \$1,000,000. The QP is current. Which action is the SINGLE MOST CRITICAL priority?

A. Submit the renewal application with updated financial statements demonstrating net worth sufficient to support the requested \$1,000,000 bid limit, and include the formal bid limit increase request — because without submitting both simultaneously the contractor risks either renewal lapse or missing the bid-limit increase opportunity tied to the renewal cycle

B. Wait until after renewal is confirmed before requesting the bid limit increase to avoid complicating the renewal application under state licensing law

C. Request that the Board grant a temporary bid limit increase to \$1,000,000 while the renewal is pending under state licensing law as applied to provisional approvals

D. Engage a CPA to prepare revised financial statements showing a higher net worth before submitting either the renewal or the bid limit increase request under standard accounting practice

7. An Alabama contractor receives a Board notice of hearing alleging: (1) use of a subcontractor known to be unlicensed, and (2) failure to maintain required insurance during a prior project. The contractor disputes the unlicensed-sub allegation but acknowledges the insurance lapse. Which action is the **SINGLE MOST CRITICAL** priority?

A. Pay both alleged penalties in advance to demonstrate cooperation and avoid the hearing process under state licensing law as applied to Board disciplinary matters

B. Voluntarily surrender the license before the hearing to prevent a formal revocation record under state licensing law as applied to voluntary surrender

C. File for an injunction in state circuit court to halt the Board hearing under state administrative procedure law as applied to contested cases

D. Prepare a formal hearing response with documentary evidence contesting the unlicensed-sub allegation and acknowledging the insurance lapse with mitigation facts, and retain administrative counsel to exercise full due process rights — because the hearing is the primary opportunity to limit or defeat sanctions before they issue and affect license status

8. A newly-formed Alabama LLC intends to perform commercial construction work. The LLC has filed its Certificate of Formation, obtained an EIN, identified a QP candidate, and secured workers' compensation coverage. Which action is the **SINGLE MOST CRITICAL** priority before performing any work?

A. File an Operating Agreement with the Alabama Secretary of State to formalize the LLC's governance structure under state corporate law as applied to new LLCs

B. Elect S corporation status by filing Form 2553 with the IRS to optimize the LLC's federal tax treatment under federal tax law as applied to new LLCs

C. Submit the Alabama General Contractor license application with financial statements and QP designation, and ensure the QP passes both the trade and Business and Law examinations — because without Alabama licensure no commercial contracting at or above the threshold may lawfully begin, rendering all other preparatory steps moot

D. Register the LLC with the Alabama Department of Revenue for state tax accounts before beginning contracting operations under state tax law as applied to new contractor entities

9. An Alabama contractor's bookkeeper discovers that federal income tax withholding and FICA contributions for 5 employees have not been deposited for the past 4 months. The total unpaid trust fund amount is \$55,000. The contractor is currently the apparent low bidder on a \$250,000 public project pending award. Which action is the SINGLE MOST CRITICAL priority?

A. Submit final bonding documents for the pending \$250,000 public project to preserve bid position before addressing the payroll tax delinquency under standard public bidding practice

B. Immediately remit the \$55,000 in unpaid trust fund taxes and engage tax counsel — because the Trust Fund Recovery Penalty under IRC §6672 may be personally assessed against responsible officers regardless of corporate structure, and personal liability is more severe and immediate than any effect on the pending award

C. Apply for an IRS installment agreement to spread the \$55,000 liability over 24 months before making any lump-sum payment under federal tax procedure as applied to delinquent employers

D. Issue corrected Forms W-2 to all 5 affected employees to reflect the withholding discrepancy before remitting the unpaid taxes under federal information reporting procedure

10. An Alabama employer with 8 employees hires 3 new workers on Monday. By Thursday, I-9 Section 2 has not been completed for any of the 3, E-Verify has not been initiated, federal new-hire reporting has not been filed, and Form W-4s have not been collected. Which action is the SINGLE MOST CRITICAL priority?

A. Complete I-9 Section 2 for all 3 new hires immediately — because the 3-business-day deadline has already passed for employees who began on Monday, creating continuous per-violation federal immigration civil penalty exposure that must be stopped before all other onboarding obligations

B. Collect Form W-4 withholding elections from all 3 new hires so payroll processing can begin under federal tax law as applied to new employee withholding

C. File federal new-hire reporting with the Alabama Department of Labor for all 3 hires before the 20-day deadline under state employment law as applied to new-hire reporting

D. Initiate E-Verify submissions on all 3 new hires under the Beason-Hammon Alabama Taxpayer and Citizen Protection Act as applied to E-Verify obligations for Alabama employers

11. An Alabama contractor with 18 employees has been classifying 4 workers as independent contractors for the past 2 years. A Department of Labor investigator has arrived unannounced to audit payroll records. The contractor's Form 941 filings for the current year do not reflect these 4 workers. Which action is the SINGLE MOST CRITICAL priority?

A. Produce all requested payroll records to the DOL investigator and cooperate fully, while immediately engaging employment counsel to evaluate reclassification exposure, arrears payroll tax liability, and whether voluntary corrective options (IRS VCSP) are still available — because cooperation combined with active legal defense is the most effective response to a live audit

B. Refuse to produce records without a formal subpoena to preserve legal rights under federal administrative procedure as applied to unannounced DOL audits

C. Immediately reclassify all 4 workers as employees and retroactively issue corrected W-2s before the investigator reviews any records under federal tax law as applied to worker classification

D. Terminate all 4 independent contractors before the investigator reviews any records to eliminate the classification exposure under standard employment practice as applied to DOL audits

12. An Alabama contractor processes payroll for a non-exempt employee earning \$20/hour who worked 58 hours in a single workweek. The contractor has also just received an IRS CP2000 notice proposing a \$12,000 tax adjustment for the prior year related to unreported subcontractor payments. Form 941 for the current quarter is due in 10 days. Which action is the SINGLE MOST CRITICAL priority?

A. Respond to the IRS CP2000 notice within the stated deadline to avoid automatic assessment of the \$12,000 proposed adjustment under federal tax procedure as applied to CP2000 notices

B. File the current quarter Form 941 on time with correct information, including proper overtime wages for the non-exempt employee, and separately respond to the CP2000 notice within its stated deadline — because both are independent federal compliance obligations with distinct penalties for non-compliance and neither may be deferred to address the other

C. Process payroll at straight time for all 58 hours to conserve cash while the CP2000 matter is resolved under standard payroll practice as applied to cash management

D. Process payroll correctly with overtime premium ($40 \times \$20 = \800 plus $18 \times \$30 = \$540 = \$1,340$), file Form 941 on time, and respond to the CP2000 notice within its deadline — because all three obligations are immediate and independent, and each carries distinct penalties for non-compliance

13. An Alabama contractor with 9 employees has not obtained workers' compensation coverage. A new employee is injured on the first day of work at the job site and requires emergency hospitalization. The

contractor has not yet filed the current quarter Form 941. Which action is the SINGLE MOST CRITICAL priority?

- A. File the overdue Form 941 immediately to eliminate federal payroll tax exposure before addressing the workplace injury under federal tax law as applied to delinquent payroll filings
- B. Obtain workers' compensation coverage immediately and address the injured employee's claim through emergency carrier placement — because Alabama law requires coverage at 5 employees, the injured worker has no statutory benefit fund without coverage, and the employer faces personal tort liability for the injury given that the exclusive-remedy protection is unavailable
- C. Pay the injured employee's hospital bills directly from company funds to settle the claim informally under standard business practice as applied to uninsured injury settlements
- D. Report the injury to OSHA within 24 hours and then address the coverage gap under federal occupational safety law as applied to workplace injuries requiring hospitalization

14. An Alabama contractor personally receives a proposed Trust Fund Recovery Penalty notice for \$95,000 representing unpaid payroll taxes from a prior company the contractor managed. The contractor is currently operating a new licensed Alabama contracting entity. Which action is the SINGLE MOST CRITICAL priority?

- A. Engage tax counsel immediately to respond to the TFRP notice within the stated deadline, assess factual and legal grounds to contest willfulness or responsible-person status, and resolve through IRS Appeals if necessary — because the TFRP is a personal assessment independent of any corporate entity and missing the response window has severe and permanent financial consequences
- B. Transfer the new company's assets to a third-party trustee before the IRS initiates collection action under state trust law as applied to asset protection strategies
- C. File for personal bankruptcy to discharge the proposed TFRP assessment under federal bankruptcy law as applied to trust fund tax obligations
- D. Pay the \$95,000 TFRP immediately to prevent any effect on the new contracting entity's license status under state licensing law as applied to personal tax obligations

15. An Alabama contractor's \$600,000 lump sum contract requires installation of specified fire-suppression equipment. The owner issues a written directive to substitute an equivalent but unlisted alternative product. The architect has not approved the substitution. The specification contains a no-substitution clause. Which action is the SINGLE MOST CRITICAL priority?

- A. Proceed with the owner-directed substitution immediately to maintain schedule and owner goodwill under standard contracting practice as applied to owner-directed changes
- B. Submit the substitution for architect review and approval, request a written change order from the owner reflecting any cost and schedule impact, and do not install the substituted product until both architect approval and a signed change order are in hand — because the no-substitution clause and architect authority make proceeding without approval a contract breach
- C. Refuse to perform any further work until the specification conflict is resolved at the owner's expense under standard contract practice as applied to specification disputes
- D. Install the specified original product regardless of the owner's directive and submit a change order for any cost difference attributable to the owner's conflicting directive under state contract law as applied to specification compliance

15. An Alabama contractor's \$600,000 contract includes a liquidated damages clause at \$1,800/day. The project is 10 days behind schedule, 6 of which the contractor attributes to owner-directed scope additions not formalized in a change order. The owner has begun deducting LD from the most recent pay application. Which action is the SINGLE MOST CRITICAL priority?

- A. Stop work until the owner acknowledges the 6 owner-caused days and reinstates the deducted payment under state contract law as applied to disputed LD deductions
- B. Accept the full 10-day LD deduction and continue performance to avoid further delay under standard contract practice as applied to schedule disputes
- C. File a demand for arbitration on the full LD deduction before continuing any further work under standard contract dispute resolution procedure
- D. Submit a formal time extension request with documentary support (owner directives, RFIs, schedule analysis) for the 6 owner-caused days — because reducing LD-eligible delay from 10 to 4 days saves \$10,800 ($\$1,800 \times 6$) in deductions, preserves the right to final payment, and continuing work avoids additional LD accrual

16. An Alabama contractor terminates a subcontractor for cause after the sub performs defective concrete work requiring \$45,000 in remediation. The sub claims it was wrongfully terminated and has filed a mechanic's lien for \$38,000 in unpaid work. The prime has a \$500,000 contract with the owner. Which action is the SINGLE MOST CRITICAL priority?

- A. Pay the sub's \$38,000 lien claim immediately to remove the lien from the project under state lien law as applied to subcontractor liens

B. File suit against the sub for the \$45,000 remediation cost before responding to the lien claim under state contract law as applied to defective work

C. Retain counsel to evaluate the for-cause termination grounds, document the defective work with inspection records and remediation costs, respond to the lien with a formal dispute (including a lien bond if required to keep the project moving), and assess the sub's \$38,000 claim against the \$45,000 remediation offset — because the prime's legal position depends on the validity of the for-cause termination and the net damages computation

D. Notify the owner of the sub's lien filing and request the owner release retainage to cover remediation costs under standard contract practice as applied to owner notification

17. An Alabama contractor's \$1.5 million public project is 45 days from the contract completion date. The critical path has slipped 9 days due to delays in owner-furnished equipment delivery. The LD clause assesses \$2,500/day. The owner has informally indicated it will consider a time extension but has not yet responded to the contractor's informal request. Which action is the SINGLE MOST CRITICAL priority?

A. Continue working without further delay while informally following up with the owner about the extension under standard contract practice as applied to informal communications

B. Submit a formal, documented time extension request with all supporting evidence (owner equipment delivery records, CPM schedule analysis showing 9-day critical path impact, written owner communications) — because the formal record protects the contractor's right to extension, the \$22,500 in LD exposure ($\$2,500 \times 9$) depends on timely formal notice, and informal assurances are not contractually protective

C. Stop work immediately and notify the owner that no further progress will occur until the extension is formally granted under state contract law as applied to excusable delay

D. Accept the 9-day LD deduction (\$22,500) as a cost of doing business and focus resources entirely on schedule acceleration under standard contract practice as applied to delay management

18. An Alabama contractor is directed by the owner to perform \$65,000 in additional work outside the original scope. The owner issues a verbal directive and refuses to sign a change order or a Construction Change Directive, citing urgency. The contractor estimates the work will take 18 days and consume critical float. Which action is the SINGLE MOST CRITICAL priority?

A. Demand a written Construction Change Directive from the owner, proceed with the work under the CCD mechanism, document all costs and time impacts contemporaneously, and reserve all rights to time extension and fair compensation — because the CCD permits performance without signed change order agreement while preserving the contractor's entitlement to full compensation

B. Perform the work based on the verbal directive without documentation to maintain owner relations and bill at project closeout under standard contracting practice as applied to verbal directives

C. Refuse to perform any additional work unless a fully executed written change order is in place before mobilizing under standard contract practice as applied to extra work authorization

D. Perform the work without reservation, absorb the cost, and waive the time impact claim to maintain the owner relationship under standard contract practice as applied to owner-directed scope changes

19. An Alabama contractor and owner enter an oral agreement for a \$150,000 commercial tenant improvement expected to last 16 months. The owner pays \$25,000 upfront and then disputes the entire agreement after the contractor completes \$60,000 of work. The contractor has no written contract. Which action is the SINGLE MOST CRITICAL priority?

A. Continue performing the remaining scope of work to demonstrate good faith and preserve the relationship under standard contract practice as applied to oral agreements

B. File a mechanic's lien for \$60,000 immediately without first consulting counsel under state lien law as applied to construction liens

C. File suit in federal court to enforce the oral agreement as a matter of federal construction contract law as applied to commercial improvements

D. Secure all documentary evidence of performance and payment, consult counsel on enforceability under the Alabama Statute of Frauds (which requires a writing for agreements not performable within one year) and available equitable remedies (quantum meruit, part-performance, promissory estoppel) — because the oral 16-month contract is presumptively unenforceable and counsel review is the threshold step before any recovery strategy

20. An Alabama prime contractor has a pay-when-paid clause in its subcontract. The owner has gone 60 days past due on a \$175,000 pay application that includes \$70,000 in sub work. The sub is demanding payment and threatening to stop work. The prime has not yet been paid by the owner. Which action is the SINGLE MOST CRITICAL priority?

A. Pay the sub's \$70,000 immediately from the prime's operating funds to prevent work stoppage under standard subcontracting practice as applied to cash flow management

B. Instruct the sub to stop work immediately to reduce further cost exposure while the owner's payment is pursued under standard subcontracting practice as applied to non-payment disputes

C. Promptly communicate with the sub regarding the pay-when-paid clause and the owner's non-payment status, evaluate whether the clause is enforceable given the duration of the owner's delay, preserve all joint

lien rights against the property, and consult counsel on the prime's obligations — because pay-when-paid clauses have enforceability limits under Alabama law and the prime has documentation and communication duties regardless

D. File suit against the owner for the full \$175,000 pay application before communicating with the sub under state contract law as applied to payment disputes

21. An Alabama contractor submits the apparent low bid of \$540,000 on a public project. After bid opening, the contractor's estimator identifies a \$42,000 transposition error in the electrical sub bid carry-forward. The contract has not been awarded or executed. Which action is the **SINGLE MOST CRITICAL** priority?

A. Promptly notify the awarding authority in writing of the material mathematical error with supporting documentation (estimator worksheets, sub bid sheets, carry-forward calculation), and request withdrawal under the Alabama bid mistake doctrine — because the doctrine applies only before acceptance and requires prompt written notice with documentation, both of which must be acted on immediately

B. Execute the contract at the \$540,000 bid price and absorb the \$42,000 error as a cost of doing business under standard public bidding practice as applied to bid acceptance

C. Demand that the awarding authority reopen bidding to permit correction of the error under state public works law as applied to bid corrections after opening

D. Notify the surety of the bid error and request bond cancellation to avoid performance exposure under bonding law as applied to bid mistakes

22. An Alabama state agency must procure \$18,000 in safety equipment, \$55,000 in HVAC maintenance services, and \$90,000 in roof replacement construction during the same budget year. The agency wants to issue a single combined solicitation. Which action is the **SINGLE MOST CRITICAL** priority for the agency's procurement officer?

A. Procure the safety equipment and HVAC maintenance services under separate Title 41-16 (Competitive Bid Law, \$15,000 threshold) procedures, and procure the roof replacement construction under Title 39 (Public Works Law, \$50,000 threshold) advertised competitive bidding — because the two statutes govern distinct procurement categories and cannot be consolidated into a single solicitation

B. Combine all three procurements into a single Title 39 solicitation since construction is the highest-dollar item and Title 39 would govern the combined solicitation under state public works law

C. Use an emergency procurement justification to waive competitive bidding on all three items and issue sole-source awards under state procurement law as applied to emergency circumstances

D. Procure all three items under Title 41-16 since all amounts are below the Title 39 sole-source threshold of \$100,000 under state procurement law as applied to competitive thresholds

23. An Alabama contractor is awarded a \$900,000 public construction contract. Seven days after contract execution, the contractor's bonding company notifies the contractor it will not issue the required performance and payment bonds due to an adverse financial review. Bond delivery is required within 10 days of contract execution. Which action is the SINGLE MOST CRITICAL priority?

A. Notify the awarding authority in writing that the bonds will be delayed and request a 30-day extension of the bond delivery deadline under state public works law as applied to bond delivery

B. Withdraw from the contract and submit a written explanation to the awarding authority, expecting the bid bond to be forfeited under state public works law as applied to contractor withdrawal

C. Immediately contact and qualify a replacement surety capable of issuing 100% performance and payment bonds at \$900,000 contract value before the 10-day bond delivery deadline expires — because failure to deliver bonds results in bid bond forfeiture (typically $5\% \times \$900,000 = \$45,000$), award to the next lowest bidder, and potential Board disciplinary action

D. Request that the awarding authority permit a 50% bond in lieu of the 100% requirement to accommodate the surety's financial concerns under state public works law as applied to bond alternatives

24. An Alabama contractor's \$1,400,000 bid is built from \$950,000 direct cost, \$90,000 job overhead, \$160,000 general overhead, and \$200,000 profit. After award, material costs increase by \$85,000 due to supplier price escalation not covered by an escalation clause. The contractor's net margin drops from 14.3% to 8.2%. Which action is the SINGLE MOST CRITICAL priority?

A. File a change order request citing material price escalation as a basis for additional compensation under state contract law as applied to lump sum cost escalation

B. Stop work until the owner agrees to share the material cost increase under state contract law as applied to cost overruns on lump sum contracts

C. Notify the surety of the cost overrun and request bond modification to reflect the reduced profitability under bonding law as applied to lump sum contract performance

D. Accept the \$85,000 material cost overrun as the contractor's risk under the lump sum contract structure — because lump sum pricing assigns cost escalation risk to the contractor absent an express escalation clause — and focus execution on controlling remaining costs and maintaining project schedule to prevent further margin erosion

25. A general contractor soliciting sub bids on a \$450,000 electrical scope for a public Alabama project receives 5 bids ranging from \$390,000 to \$460,000. The lowest bid (\$390,000) was submitted 2 hours before the prime bid deadline and contains a handwritten note stating "excludes conduit above 20 feet." The prime bid is due in 90 minutes. Which action is the SINGLE MOST CRITICAL priority?

A. Contact the lowest sub bidder immediately to determine whether the above-20-foot conduit exclusion materially affects scope coverage, obtain written confirmation if the sub will cover full scope, and if not, carry the next-lowest fully responsive sub bid — because incorporating a scope-deficient sub bid creates a prime-level coverage gap that becomes the prime's cost to fill after award

B. Use the \$390,000 sub bid as submitted and address the conduit exclusion after award through a subcontract negotiation session under standard prime contracting practice

C. Re-solicit electrical sub bids with a new deadline to obtain clean bids without scope exclusions under standard prime contracting practice as applied to bid deficiencies

D. Submit the prime bid using the second-lowest sub bid of \$410,000 without contacting the lowest bidder, to avoid any scope risk under standard public bidding practice as applied to bid evaluation

26. An Alabama contractor's CPA prepares year-end financial statements using the percentage-of-completion method for GAAP reporting and the completed-contract method for tax purposes. The Board is reviewing the renewal package and the surety is conducting its annual underwriting review. Revenue under POC is \$3,200,000; under completed-contract it is \$2,600,000. Net worth under POC is \$520,000. Which action is the SINGLE MOST CRITICAL priority?

A. Submit the GAAP percentage-of-completion financial statements to both the Board and the surety with a clear written reconciliation explaining the difference between book (POC) and tax (completed-contract) methods — because both the Board and surety use GAAP statements for bid limit and bonding capacity decisions and unexplained discrepancies between tax and book figures erode confidence in the financial package

B. Submit only the tax-basis completed-contract statements to both the Board and the surety to simplify the review package under standard accounting practice as applied to licensing renewals

C. Elect to switch from POC to completed-contract for GAAP reporting to eliminate the reconciliation requirement under standard construction accounting practice

D. File for a Board extension of the renewal deadline to allow time to reconcile the two accounting methods before submission under state licensing law as applied to renewal extensions

27. An Alabama contractor's WIP schedule shows Project X with costs incurred of \$480,000, total estimated costs of \$600,000, and a \$750,000 contract price. The contractor has billed \$640,000 to date.

Year-end statements are due in 21 days for Board renewal and surety review. Which action is the SINGLE MOST CRITICAL priority?

- A. Bill the remaining \$110,000 of contract price immediately to match earned revenue before year-end under standard contract practice as applied to year-end billing
- B. Defer all Project X revenue recognition to final completion to present a conservative financial position under completed-contract accounting practice
- C. Apply the percentage-of-completion cost-to-cost method (costs incurred \$480,000 ÷ total estimated costs \$600,000 = 80%), recognize earned revenue of \$600,000 (80% × \$750,000), and report the \$40,000 overbilling (\$640,000 billed minus \$600,000 earned) as a current liability — because proper POC reporting is required for Board and surety review and the overbilling position must be presented accurately on the balance sheet
- D. Report Project X as 85% complete based on billings as a percentage of contract price and recognize \$637,500 in revenue under an estimated-completion method not tied to cost-to-cost ratios

28. An Alabama subcontractor receives a \$60,000 progress payment check that is subsequently returned for insufficient funds. The sub had signed a conditional lien waiver upon receipt of the check. The sub has \$25,000 in additional unbilled work since the check was issued. The lien filing window is open. Which action is the SINGLE MOST CRITICAL priority?

- A. Continue working on the project and allow the prime additional time to cure the dishonored check under standard subcontractor practice as applied to payment disputes
- B. Sign an unconditional lien waiver to demonstrate the sub's good faith in the payment dispute and facilitate renegotiation with the prime under standard subcontractor practice
- C. File suit against the prime contractor for breach of contract in circuit court without first documenting the dishonored check or confirming the conditional waiver's status under state contract law
- D. Immediately notify the prime in writing that the conditional waiver has not taken effect (because actual payment was not received), obtain and retain bank documentation of the dishonor, preserve lien rights for the full \$85,000 (\$60,000 dishonored plus \$25,000 additional work), and prepare to file the verified lien statement within the statutory window — because the conditional waiver's effectiveness was contingent on actual payment, and prompt written notice preserves the sub's full secured position

29. An Alabama contractor has a Board-authorized bid limit of \$2,500,000. The contractor's surety has set a single-project bonding cap of \$1,600,000 and an aggregate cap of \$4,000,000. The contractor wishes to bid on a \$2,200,000 single project. The contractor has working capital of \$350,000 and net worth of \$900,000. Which action is the SINGLE MOST CRITICAL priority?

- A. Apply to the surety for an increase in the single-project bonding capacity from \$1,600,000 to at least \$2,200,000 before submitting the bid — because the surety's single-project cap is binding regardless of the Board's bid limit, and the bid cannot result in an award the contractor can bond
- B. Submit the bid based on the Board's \$2,500,000 authorized bid limit and address the bonding capacity gap after award is confirmed under standard public bidding practice
- C. Submit the bid under the existing \$1,600,000 single-project cap and obtain a co-surety arrangement to cover the balance after award under bonding industry practice as applied to capacity shortfalls
- D. Request that the awarding authority accept a letter of credit in lieu of a performance and payment bond for the portion exceeding the surety's \$1,600,000 cap under state public works law as applied to bond alternatives

30. An Alabama contractor's year-end WIP schedule shows: Project A — \$180,000 underbilling; Project B — \$240,000 overbilling; Project C — \$410,000 retainage receivable; total current receivables of \$920,000; total current payables of \$710,000. The contractor must calculate working capital for the Board's renewal package. Which action is the SINGLE MOST CRITICAL priority?

- A. Net Project A and Project B into a single \$60,000 overbilling position and exclude retainage receivable from current assets to simplify the balance sheet presentation under standard accounting practice
- B. Present each WIP position separately on the balance sheet — \$180,000 underbilling as a current asset, \$240,000 overbilling as a current liability, and \$410,000 retainage receivable as a current asset — and compute working capital from the correctly stated balance sheet, because netting or excluding WIP positions distorts the liquidity picture the Board and surety rely on
- C. Exclude all WIP positions from the balance sheet and report only cash and trade receivables as current assets under a simplified construction accounting approach
- D. Report only the \$410,000 retainage receivable as a current asset and exclude underbilling and overbilling from the working capital computation under standard balance sheet presentation for construction

31. An Alabama contractor with 24 employees has a non-exempt employee who earned \$18/hour and worked 62 hours last week. The same employee has submitted a written complaint to HR alleging age-based discrimination by a supervisor. The contractor must process payroll today. Which action is the SINGLE MOST CRITICAL priority?

- A. Delay payroll processing until the age discrimination complaint investigation is complete to avoid any payroll transactions that could appear retaliatory under federal employment law

B. Process payroll at straight time for all 62 hours pending resolution of the employment complaint under standard HR practice as applied to active investigations

C. Reduce the employee's hours to 40 per week going forward to minimize overtime exposure while the complaint is under review under federal employment law as applied to ADEA matters

D. Process payroll correctly with overtime premium ($40 \times \$18 = \720 plus $22 \times \$27 = \$594 = \$1,314$) and separately initiate a prompt, confidential ADEA-compliant investigation with anti-retaliation protections — because the FLSA overtime obligation and the ADEA investigation duty are independent and both must be addressed timely without one being deferred to the other

32. An Alabama contractor reaches the 5-employee workers' compensation threshold and the 20-employee ADEA threshold on the same date. An employee over age 40 is injured on the job that same day. The contractor does not yet have workers' compensation coverage. Which action is the SINGLE MOST CRITICAL priority?

A. Implement ADEA anti-discrimination policies and complaint procedures before addressing workers' compensation coverage, since age discrimination exposure compounds over time under federal employment law

B. File an OSHA 300 Log entry for the workplace injury and address insurance coverage in the next payroll cycle under federal occupational safety law as applied to recordkeeping priorities

C. Obtain workers' compensation coverage immediately and address the injured employee's claim through emergency carrier placement — because the injured employee has no statutory benefit fund available without coverage, the employer faces personal tort exposure for the injury, and the exclusive-remedy protection is unavailable until coverage is in force

D. Pay the injured employee's medical expenses directly from company funds while simultaneously applying for workers' compensation coverage under standard business practice as applied to uninsured injury management

33. An Alabama contractor with 55 employees within a 75-mile radius receives an FMLA leave request from an employee who has worked 1,100 hours in the past 12 months and has been employed 14 months. The employee is a key project supervisor on a 6-week closeout schedule. Which action is the SINGLE MOST CRITICAL priority?

A. Deny the FMLA request because the employee has not met the 1,250-hour eligibility threshold and document the denial with the specific statutory basis — because FMLA eligibility requires 1,250 hours worked in the prior 12 months, and the employee's 1,100 hours do not meet the threshold, meaning the denial is legally correct and must be properly documented to avoid a wrongful-denial claim

B. Approve the FMLA request provisionally and reassign the employee's supervisory duties to preserve project schedule under standard HR practice as applied to FMLA requests

C. Grant the leave request without reviewing eligibility to avoid any FMLA exposure and address the project schedule separately under standard employer practice as applied to leave requests

D. Transfer the employee to a different project where the absence will have less schedule impact and then deny the leave request under federal employment law as applied to FMLA eligibility

34. An Alabama contractor with 30 employees has failed to maintain I-9 documentation for the past 12 months. A Notice of Inspection from U.S. Immigration and Customs Enforcement has been received with a 3-business-day deadline to produce I-9 records. Which action is the SINGLE MOST CRITICAL priority?

A. Ignore the inspection notice and await a formal subpoena before producing any records under federal administrative procedure as applied to ICE inspection authority

B. Engage immigration counsel immediately, produce all available I-9 records within the 3-business-day window, conduct an emergency internal I-9 audit on all current employees, and prepare to demonstrate good-faith corrective efforts — because failure to respond within the statutory window triggers automatic monetary penalties, and proactive correction combined with counsel representation is the most effective mitigation strategy

C. Retroactively complete I-9 documentation for all 30 employees before producing any records, backdating the forms to appear timely under federal immigration procedure as applied to audit preparation

D. Terminate all employees without current I-9 documentation before the inspection deadline to eliminate the non-compliant records from the audit population under federal immigration law as applied to ICE inspections

35. An Alabama contractor with 28 employees has 6 employees over age 40, 4 employees with qualifying disabilities, and a non-exempt employee earning \$22/hour who worked 56 hours last week. The contractor has no written ADA accommodation procedure, no ADEA anti-discrimination policy, and no Title VII complaint procedure. Payroll must be processed today. Which action is the SINGLE MOST CRITICAL priority?

A. Process payroll correctly with overtime premium ($40 \times \$22 = \880 plus $16 \times \$33 = \$528 = \$1,408$) and immediately develop a comprehensive employment compliance plan addressing ADA accommodation procedures, ADEA anti-discrimination policies, and Title VII complaint procedures — because the 28-employee headcount triggers ADA (15+), Title VII (15+), and ADEA (20+) simultaneously and each statute carries significant litigation exposure for noncompliance

B. Defer payroll processing until employment law counsel has reviewed all withholding and overtime calculations under federal employment law as applied to complex payroll situations

C. Reduce hours for the non-exempt employee going forward to avoid overtime premium obligations under standard HR cost management practice

D. Process only ADEA-compliant policies first since employees over 40 represent the largest at-risk group, then address ADA and Title VII policies in subsequent quarters under federal employment law as applied to compliance prioritization

36. An Alabama contractor's CGL policy expires in 15 days, the builders' risk policy on an active project expires in 20 days, the workers' compensation policy renews in 90 days, and a completed project has a pending \$55,000 defective work claim from the owner. Which action is the SINGLE MOST CRITICAL priority?

A. Defer CGL renewal until after the builders' risk renewal to consolidate both renewals with the same broker under standard insurance management practice as applied to policy consolidation

B. Renew the builders' risk policy only, since the active project poses more immediate physical damage risk than the expiring CGL under standard risk management practice

C. Notify the workers' compensation carrier of the defective work claim to ensure coverage under state insurance law as applied to contractor warranty obligations

D. Coordinate with the insurance broker immediately to renew both the CGL (expiring in 15 days) and builders' risk (expiring in 20 days) before either lapses, and separately notify the CGL carrier of the \$55,000 defective work claim within the policy's claim-reporting window — because coverage gaps on either policy expose the contractor to uninsured loss and late claim notice can forfeit CGL coverage on the pending warranty matter

37. An Alabama contractor bidding a \$4 million federal construction project must demonstrate CGL coverage of \$2 million per occurrence, professional liability of \$1.5 million, and builders' risk at contract value. The contractor's current CGL limit is \$1 million and the contractor has never carried professional liability. The bid is due in 5 days. Which action is the SINGLE MOST CRITICAL priority?

A. Contact the insurance broker immediately to increase the CGL limit to \$2 million per occurrence, obtain a professional liability policy at \$1.5 million, and confirm builders' risk availability upon award — because federal procurement insurance requirements are conditions precedent to award and the 5-day bid window requires immediate broker engagement to obtain quotes, binders, and certificates before bid submission

- B. Submit the bid with existing \$1 million CGL coverage and submit proof of increased coverage after award under standard federal bidding practice as applied to insurance requirements
- C. Request a federal contracting officer waiver of the professional liability requirement citing the contractor's construction-only scope under federal procurement law as applied to insurance waivers
- D. Withdraw from the bid because the professional liability requirement cannot be satisfied within 5 days under standard insurance procurement practice as applied to federal bids

38. An Alabama contractor's project has experienced four recordable safety incidents in 60 days, the experience modification rate is trending upward, OSHA has sent a Request for Information letter, and the surety has conditioned its bonding renewal on a formal safety program review. Which action is the SINGLE MOST CRITICAL priority?

- A. Cancel all active insurance policies and transition to a self-insured retention program to avoid experience modifier penalties under standard risk management practice as applied to frequency claims
- B. Conduct a comprehensive safety system review immediately — investigate all four incidents for root causes, update job hazard analyses, retrain supervisors and workers on identified hazards, implement corrective actions, and prepare a written safety improvement plan to present to the surety and respond to OSHA's RFI — because high-frequency incidents signal systemic failures affecting workers' comp, OSHA exposure, bonding capacity, and project safety across all dimensions
- C. Respond to OSHA's RFI only and defer the surety safety review until after bonding renewal is confirmed under standard risk management practice as applied to regulatory priorities
- D. Reduce headcount below the OSHA recordkeeping threshold to eliminate future recordable incidents from the 300 Log under federal occupational safety law as applied to experience modification reduction

39. An Alabama contractor's contract includes a mutual waiver of subrogation enforceable against all parties and their insurers. A fire destroys \$400,000 in stored materials. The contractor's insurer pays the claim and seeks subrogation against a subcontractor whose welding operations caused the fire. The subcontract includes a flow-down of the prime's mutual waiver of subrogation. Which action is the SINGLE MOST CRITICAL priority?

- A. Permit the insurer to proceed with subrogation against the sub, since the sub's negligence caused the fire and fault-based subrogation overrides contractual waivers under state insurance law
- B. File suit directly against the sub on behalf of the insurer to recover the \$400,000 under state contract law as applied to tort recovery by subrogor contractors

C. Confirm that the mutual waiver of subrogation flows down to the subcontractor through the flow-down clause and notify the insurer that the waiver prevents subrogation against the sub — because the contractual waiver is supported by the policies and binds the insurer, and allowing subrogation would breach the contractual arrangement between the parties

D. Cancel the mutual waiver of subrogation by written amendment to permit the insurer's subrogation and recover the \$400,000 from the sub under state contract law as applied to waiver modifications

40. An Alabama construction site fatality occurs at 8:00 AM Monday. The employer's safety director learns of the death at 9:30 AM the same day. The site superintendent is unreachable, key witnesses are still on site, and the employer's OSHA 300 Log is not current. Which action is the SINGLE MOST CRITICAL priority?

A. Update the OSHA 300 Log immediately before contacting OSHA, to ensure records are accurate at the time of any inspection under OSHA recordkeeping rules as applied to fatalities

B. Preserve the accident scene and secure witness statements before initiating OSHA contact to build a factual record prior to the investigation under standard safety management practice

C. Contact the workers' compensation carrier before notifying OSHA to ensure the claim is properly documented before the regulatory investigation begins under state insurance law

D. Report the fatality to OSHA within 8 hours of employer knowledge (by 5:30 PM Monday, 8 hours after the 9:30 AM notification) under 29 CFR 1904.39 — because the 8-hour fatality reporting deadline is jurisdictional, missing it creates separate citations independent of the underlying incident, and all other priorities (witness statements, scene preservation, log updates) can proceed in parallel

41. An Alabama construction employer learns at 4:00 PM Wednesday that an employee was hospitalized for an in-patient stay following a workplace injury that occurred at 1:00 PM the same day. The OSHA 24-hour hospitalization reporting window begins at the time of employer knowledge. Which action is the SINGLE MOST CRITICAL priority?

A. Preserve the incident scene and collect witness statements before reporting to OSHA to ensure an accurate account is available when the regulator contacts the employer under standard safety management practice

B. Report the in-patient hospitalization to OSHA within 24 hours of employer knowledge (by 4:00 PM Thursday) under 29 CFR 1904.39 — because the 24-hour hospitalization reporting deadline is jurisdictional, runs from time of employer knowledge, and missing it triggers separate citations; all other priorities (scene preservation, log entry, carrier notice) can occur in parallel with the OSHA report

C. Contact the workers' compensation carrier first to open the claim before notifying OSHA, since the carrier will coordinate regulatory compliance on the employer's behalf under standard insurance practice

D. Wait until the employee's physician confirms the hospitalization is work-related before making the OSHA report to avoid filing a potentially incorrect notification under federal occupational safety law as applied to in-patient hospitalization events

42. An Alabama contractor has the following simultaneous compliance obligations: a recordable injury occurred 6 days ago and has not been entered on the OSHA 300 Log, the SWPPP for a 3-acre disturbed site has not been developed, and the Form 300A annual summary must be posted beginning February 1 (5 days away). Which action is the SINGLE MOST CRITICAL priority?

A. Enter the recordable injury on the OSHA 300 Log immediately (on day 6 of the 7-day entry window), develop the SWPPP before the NPDES NOI is filed to allow permitted site work to continue, and prepare the Form 300A annual summary for posting on February 1 — because each deadline is imminent, carries separate enforcement exposure, and must be addressed in parallel with appropriate sequencing

B. Develop the SWPPP and file the NPDES NOI before addressing any OSHA recordkeeping issues, since water-quality enforcement is federally administered and carries higher per-violation penalties under federal environmental law

C. Post the Form 300A annual summary immediately (5 days early) before addressing any other compliance obligation to avoid a recordkeeping citation under OSHA annual summary rules

D. Stop all site disturbance activities until the SWPPP is developed and approved by ADEM under state water quality law as applied to construction stormwater management

43. An Alabama contractor is in the final 8 weeks of a major project. The contractor must: (1) reach substantial completion by week 4 to stop LD accrual, (2) complete the NPDES Notice of Termination after site stabilization by week 6, (3) file OSHA 300A by January 31 (week 5), and (4) complete federal payroll year-end filings (Forms W-2, 1099-NEC, Form 940) by their respective deadlines. Which action is the SINGLE MOST CRITICAL priority sequence?

A. File payroll year-end forms first since IRS penalties accrue daily, then address OSHA and NPDES requirements before reaching substantial completion under federal tax procedure as applied to year-end filings

B. Reach substantial completion immediately to stop LD accrual, complete site stabilization to permit NPDES NOT filing, file OSHA 300A by January 31, and complete federal payroll year-end forms on their respective deadlines — addressing each obligation in order of imminence and statutory consequence

C. Address NPDES site stabilization before reaching substantial completion to prevent water-quality enforcement before the project closeout date under federal environmental law as applied to construction site closeout

D. Address each closeout deadline as it arrives, prioritizing all obligations in the sequence of their calendar due dates — substantial completion (week 4), OSHA 300A (week 5), NPDES NOT (week 6), and payroll year-end filings — because each carries separate compliance consequences and none may be deferred to address the others

44. An Alabama public construction project is 11 days from the contract completion date. The contractor's CPM analysis shows a 5-day critical path slip due to late delivery of owner-furnished structural steel. The LD clause is \$3,000/day. The owner has verbally acknowledged the steel delivery delay. Which action is the SINGLE MOST CRITICAL priority?

A. Accept the 5-day LD deduction (\$15,000) and accelerate work without seeking a formal extension, since the owner verbally acknowledged the cause under standard contract practice

B. Stop work until the owner issues a formal written time extension acknowledging the steel delivery delay under state contract law as applied to LD disputes

C. Submit a formal, documented time extension request supported by the CPM analysis showing the 5-day critical path impact and the owner's steel delivery records — because converting 5 days of LD exposure (\$15,000) to a no-LD outcome requires a formal approved extension, verbal acknowledgment is not contractually protective, and continued performance preserves the contractor's right to final payment and retainage

D. File suit against the structural steel supplier for the \$15,000 in LD exposure caused by the late delivery under state contract law as applied to supplier delay damages

45. An Alabama contractor reaches substantial completion on a \$1,800,000 public project on September 30. Contract retainage is 10% (\$180,000), the punch list has 22 items, and the contractor has \$75,000 in subcontractor retainages to release. The owner has not released any retainage. Which action is the SINGLE MOST CRITICAL priority?

A. Complete all 22 punch list items before requesting any retainage release to ensure the owner has no grounds to withhold under state contract law as applied to retainage timing

B. File a mechanic's lien for the full \$180,000 retainage immediately to secure the claim against the property under state lien law as applied to retainage disputes

C. Notify the surety of the owner's retainage withholding and request bond enforcement under bonding law as applied to retainage claims

D. Promptly request release of the bulk of the \$180,000 retainage at substantial completion (typically \$162,000, retaining \$18,000 to secure punch list completion), use the released funds to pay the \$75,000 in sub retainages owed, and continue punch list completion to release the remaining retainage at final completion — because retainage release at substantial completion is standard contract practice and the contractor's right, and the cash flow is needed to satisfy downstream sub obligations

46. An Alabama contractor's CPM schedule shows 7 activities on the critical path. A subcontractor performing a non-critical activity requests a 15-day extension to complete its scope. The activity currently has 8 days of total float. A change order for the sub's scope has been issued. Which action is the SINGLE MOST CRITICAL priority?

A. Grant the sub's 15-day extension without schedule analysis since the activity is currently non-critical and has available float under standard scheduling practice as applied to non-critical activities

B. Update the CPM schedule to reflect the 15-day sub extension, recalculate total float for the affected activity (8 days float minus 15 days = 7-day negative float, meaning the activity becomes critical and delays the project by 7 days), and submit a time extension request to the owner with schedule analysis supporting the 7-day project impact — because the extension consumes all available float and drives the activity onto the critical path, creating project delay that must be captured in the change order and time extension

C. Deny the sub's extension request outright to protect float and maintain the current project completion date under standard scheduling practice as applied to float management

D. Add 15 days to the project completion date without schedule analysis and submit a blanket time extension request to the owner under standard contract practice as applied to subcontractor delays

47. An Alabama original contractor last furnished labor and materials on February 1. The owner has not paid the final \$140,000 invoice. A downstream subcontractor has also indicated it intends to file a lien. The current date is June 1. The contractor must decide on next steps. Which action is the SINGLE MOST CRITICAL priority?

A. Wait for the subcontractor to file first to confirm the lien filing procedure and then follow the same approach under state lien law as applied to lien coordination among claimants

B. Send a final written demand to the owner for payment before filing any lien, allowing a 10-day cure period before taking further action under standard contract practice as applied to payment disputes

C. Prepare and file the verified mechanic's lien statement in the probate court of the county where the property is located before August 1 (the 6-month statutory deadline from February 1 last item furnished),

and prepare to file the enforcement lawsuit within 6 months of lien filing — because the lien deadline is jurisdictional and its expiration permanently forfeits the secured claim against the property

D. File suit in circuit court for breach of contract against the owner without filing a lien, since a contract claim offers broader damages than a lien under state contract law as applied to contractor payment disputes

48. An Alabama materialman supplied \$95,000 in lumber and structural materials to a project under contract with the general contractor (no direct contract with owner). The materialman gave proper pre-furnishing written notice to the owner, last furnished materials on April 1, and has not been paid. The current date is June 15. Which action is the SINGLE MOST CRITICAL priority?

A. Prepare and file the verified mechanic's lien statement in the probate court before August 1 (the 4-month deadline from April 1 last item furnished), and prepare to file the enforcement lawsuit within 6 months of lien filing — because the materialman's 4-month lien deadline is shorter than the original contractor's 6-month deadline, and missing it permanently forfeits the materialman's secured interest in the property

B. Wait for the general contractor to collect from the owner before pursuing independent lien rights, since the materialman's claim flows through the prime's contract under standard supplier practice

C. File suit against the general contractor in circuit court for breach of the supply contract before the lien filing deadline under state contract law as applied to materialman claims

D. Request that the general contractor execute a joint check agreement for future material deliveries before pursuing lien rights under state contract law as applied to payment security mechanisms

49. An Alabama contractor operating as a sole proprietor with 10 employees has been profitable for 4 consecutive years and is expanding. Personal liability claims have increased with project size. Counsel recommends considering entity formation. The contractor is uncertain whether to form an LLC, S corp, or C corp. Which action is the SINGLE MOST CRITICAL priority?

A. Form an LLC immediately without professional consultation, since the LLC is the default choice for small contractors seeking personal liability protection under state business formation law

B. Continue operating as a sole proprietor for tax simplicity and avoid entity formation until the business grows further under federal tax law as applied to small contractors

C. Form an S corporation immediately to obtain pass-through tax treatment and payroll tax savings on owner-employee compensation under federal tax law as applied to closely held entities

D. Engage a CPA and tax counsel to evaluate the LLC (pass-through treatment, personal liability protection, operational flexibility), S corporation (pass-through with potential payroll tax savings on

owner-employee distributions), and C corporation (21% flat rate with double taxation on dividends) in light of the contractor's financial profile, growth projections, and ownership structure — because entity choice carries significant and permanent tax and liability consequences that vary by individual circumstances

50. An Alabama contractor has formed a two-member LLC, filed the Certificate of Formation, and obtained an EIN. The members have not yet executed an Operating Agreement, have not made a federal tax classification election, and have not registered for Alabama state tax accounts. The LLC intends to begin work on a \$300,000 commercial project in 45 days. Which action is the SINGLE MOST CRITICAL priority?

A. Register for Alabama state tax accounts with the Department of Revenue immediately, since tax registration is required before any business activity begins under state tax law as applied to new LLCs

B. Draft and execute the Operating Agreement defining member rights, profit and loss allocations, capital contributions, management authority, and dissolution provisions before making any tax election or beginning operations — because the Operating Agreement is the LLC's foundational governance document, the LLC defaults to partnership taxation without any election, and the agreement must govern member relationships before contracting work creates the disputes it is designed to resolve

C. File Form 2553 to elect S corporation status immediately since two-member LLCs are almost always better served by S corporation treatment under federal tax law as applied to multi-member LLCs

D. Begin work on the \$300,000 commercial project immediately and address the Operating Agreement and tax election as administrative matters after the project begins under standard contracting practice as applied to new entity formation

PRACTICE EXAM 19: ANSWER KEY AND EXPLANATIONS

1. B — An unlicensed contract in Alabama is unenforceable, meaning the contractor has no legal basis to recover the unpaid balance through litigation. Ceasing all further unlicensed activity is the threshold priority because each new unlicensed contract independently compounds Board exposure and creates additional unenforceable claims.

2. A — The 60-day statutory window for designating a replacement QP is jurisdictional, and failure to designate within it jeopardizes the license itself. License loss would halt all active projects, eliminate bid eligibility on pending bids, and render the renewal moot — making QP replacement the single priority that protects every downstream interest.

3. D — The lump sum contract assigns post-award cost risk to the contractor, so the subcontractor's withdrawal does not entitle the contractor to additional compensation from the owner. Identifying a

replacement sub at market pricing and continuing performance at the \$680,000 contract price avoids default while managing cost through the contractor's own execution.

4. C — NASCLA satisfies only the trade portion of Alabama licensure and never substitutes for the Alabama Business and Law examination. Without full Alabama licensure — including financial statements, QP designation, and B&L exam passage — no bid above the threshold is valid regardless of other preparations.

5. B — The 3-day mechanic's lien filing deadline is jurisdictional and unforgiving; missing it permanently forfeits the \$60,000 secured claim against the property, leaving only an unsecured contract claim. The OSHA inspection, workers' comp audit, and Board renewal all have materially longer windows and can be addressed after the lien is filed.

6. A — Submitting the renewal application with updated financial statements and a simultaneous bid limit increase request uses the Board's renewal cycle efficiently and prevents either a license lapse or a missed increase opportunity. Separating the two submissions creates unnecessary risk of timing gaps in both outcomes.

7. D — The hearing is the contractor's primary opportunity to present a full factual and legal defense before sanctions issue under the Alabama Administrative Procedure Act. Each alleged violation could independently result in up to \$10,000 in penalties and possible suspension or revocation, making the formal response the critical priority over premature payment or voluntary surrender.

8. C — Without Alabama General Contractor licensure, no commercial contracting at or above the \$50,000 threshold may lawfully begin, rendering all other preparatory steps moot. License application with financial statements, QP designation, and QP passage of both the trade and Business and Law examinations is the condition precedent to any contracting activity.

9. B — The Trust Fund Recovery Penalty under IRC §6672 may be personally assessed against responsible officers regardless of corporate structure, making personal liability the most severe and immediate consequence. Prompt remittance of the \$55,000 stops accruing interest and penalties and positions the contractor to address bidding and bonding implications as secondary matters.

10. A — The 3-business-day I-9 Section 2 deadline has already lapsed for employees who began on Monday (now Thursday), creating continuous per-violation federal immigration civil penalties. Immediate completion stops the accruing exposure and is the threshold priority over E-Verify, new-hire reporting, and W-4 collection, each of which has a longer compliance window.

11. C — Full cooperation with the live DOL audit combined with immediate engagement of employment counsel to evaluate reclassification exposure and corrective options (including IRS VCSP) is the most effective response. Cooperation avoids obstruction exposure while counsel preserves the contractor's legal position before any unilateral retroactive action is taken.

12. D — Processing payroll correctly with the FLSA overtime premium ($40 \times \$20 = \800 plus $18 \times \$30 = \$540 = \$1,340$), filing Form 941 on time, and responding to the CP2000 notice within its stated deadline

addresses all three independent federal compliance obligations simultaneously. Each carries distinct penalties for non-compliance and none may be deferred to address the other.

13. B — Alabama law requires workers' compensation coverage at 5 employees, and the injured worker has no statutory benefit fund without it. Operating without coverage exposes the employer to personal tort liability for the injury because the exclusive-remedy protection is unavailable, making emergency carrier placement and claim handling the immediate priority.

14. A — The TFRP is a personal assessment that bypasses the corporate entity, and the response window is short with severe financial consequences for missing it. Tax counsel engagement to evaluate willfulness and responsible-person status — and resolution through IRS Appeals if warranted — is the critical path before any payment or asset action is taken.

15. D — Submitting a formal time extension request with CPM analysis and documented owner equipment delivery records converts 6 days of LD exposure (\$10,800 at \$1,800/day) into a no-LD outcome if granted. Continuing performance preserves the right to final payment and retainage, and verbal acknowledgment by the owner is not contractually protective without formal documentation.

16. C — The for-cause termination's validity determines the prime's legal position and controls whether the \$38,000 sub lien claim can be offset by the \$45,000 remediation cost. Retaining counsel to document the defective work, respond formally to the lien with a lien bond if needed to keep the project moving, and evaluate the net offset is the comprehensive multi-obligation priority.

17. B — A formal, documented time extension request with CPM analysis and owner equipment delivery records converts 9 days of LD exposure (\$22,500 at \$2,500/day) into a no-LD outcome if granted. Informal owner assurances are not contractually protective, and the formal notice requirement must be satisfied regardless of the owner's verbal receptiveness.

18. A — The Construction Change Directive mechanism allows work to proceed under the owner's directive without a signed change order while fully preserving the contractor's entitlement to time and cost compensation. Contemporaneous documentation of all costs and schedule impacts is essential for post-performance reconciliation, making the CCD demand the correct threshold step.

19. D — The Alabama Statute of Frauds requires a writing for agreements not performable within one year, making the oral 16-month contract presumptively unenforceable. Securing all documentary evidence of performance and payments and obtaining counsel review of equitable remedies (quantum meruit, part-performance, promissory estoppel) is the threshold step before any recovery strategy can be pursued.

20. C — Pay-when-paid clauses have enforceability limits under Alabama law, particularly when the owner's non-payment is prolonged, and the prime retains documentation and good-faith communication duties regardless of clause enforceability. Prompt communication with the sub, preservation of joint lien rights, and counsel consultation is the comprehensive response the multi-obligation situation requires.

21. A — The Alabama bid mistake doctrine is available only before acceptance and requires prompt written notice with supporting documentation of the material mathematical error. Both elements must be

satisfied immediately because delay compromises the doctrine's availability, and the \$42,000 error is material enough to support withdrawal.

22. A — Title 41-16 (Competitive Bid Law) governs general state purchases above \$15,000 and Title 39 (Public Works Law) governs public construction above \$50,000; the two statutes cannot be consolidated into a single solicitation. The safety equipment and HVAC maintenance proceed under Title 41-16 procedures while the roof replacement proceeds separately under Title 39 advertised competitive bidding.

23. C — Immediate engagement of a qualified replacement surety is the critical priority because failure to deliver 100% performance and payment bonds within the 10-day window will forfeit the bid bond (approximately \$45,000), result in award to the next lowest bidder, and potentially trigger Board disciplinary action. Bond delivery is a condition precedent to contract execution.

24. D — The lump sum contract assigns material cost escalation risk to the contractor absent an express escalation clause, so the \$85,000 increase is the contractor's burden. Accepting the overrun and focusing on execution, cost controls, and schedule management on remaining work is the only path available; no change order, work stoppage, or surety claim is available for ordinary cost overruns under a lump sum structure.

25. A — Incorporating a scope-deficient sub bid creates a prime-level coverage gap that becomes the prime's cost to fill after award. The 90-minute window requires an immediate call to the low bidder to confirm full scope coverage or to carry the next-lowest fully responsive sub bid — re-solicitation is not feasible within the time available.

26. A — Both the Board and the surety use GAAP percentage-of-completion financial statements for bid limit and bonding capacity decisions, and unexplained discrepancies between book and tax figures erode confidence in the financial package. Submitting POC statements with a clear written reconciliation of the book-versus-tax difference is the critical priority to support both renewal and underwriting.

27. C — The cost-to-cost POC method ($480,000 \div 600,000 = 80\%$) yields earned revenue of \$600,000 ($80\% \times \$750,000$), and the \$40,000 difference between \$640,000 billed and \$600,000 earned is properly reported as a current liability titled "billings in excess of costs and estimated earnings." This accurate overbilling disclosure is required by construction-industry GAAP and is the basis for correct working capital presentation to the Board and surety.

28. D — The conditional lien waiver's effectiveness was contingent on actual receipt of payment, and the dishonored check means the condition was never satisfied. Immediate written notice to the prime, bank documentation of the dishonor, preservation of lien rights for the full \$85,000 (\$60,000 dishonored plus \$25,000 additional work), and preparation to file within the statutory window protects the sub's full secured position.

29. A — The surety's \$1,600,000 single-project bonding cap is binding regardless of the Board's \$2,500,000 bid limit, and submitting a bid above bonding capacity would render the contractor unable to furnish the required bonds upon award. Applying for increased single-project capacity before bid submission is the threshold step that makes the bid viable.

30. B — Construction-industry GAAP requires separate balance sheet presentation of each WIP position: \$180,000 underbilling as a current asset, \$240,000 overbilling as a current liability, and \$410,000 retainage receivable as a current asset. Netting or excluding these items distorts the working capital calculation the Board and surety rely on for bid limit and bonding capacity decisions.

31. D — The FLSA overtime obligation and the ADEA investigation duty are independent — one is a wage payment requirement and the other is an anti-discrimination compliance obligation — and neither may be deferred to the other. Correct overtime payroll ($40 \times \$18 = \720 plus $22 \times \$27 = \$594 = \$1,314$) must be processed today, and the ADEA investigation must be initiated promptly with anti-retaliation protections in place.

32. C — Alabama law requires workers' compensation coverage at 5 employees, and the injured employee has no statutory benefit fund available without it. The employer faces personal tort exposure for the injury because the exclusive-remedy protection is unavailable until coverage is in force, making immediate coverage placement and emergency claim handling the threshold priority.

33. A — FMLA eligibility requires 1,250 hours worked in the prior 12 months, and the employee's 1,100 hours fall short of the statutory threshold. The denial is legally correct and must be documented with the specific statutory basis to prevent a wrongful-denial claim; approving leave for an ineligible employee creates unnecessary precedent.

34. B — Failure to respond to an ICE Notice of Inspection within the 3-business-day window triggers automatic monetary penalties and forfeits the opportunity to demonstrate good-faith corrective efforts. Engaging immigration counsel, producing all available records, conducting an emergency internal I-9 audit, and demonstrating proactive correction is the most effective mitigation strategy available.

35. A — The 28-employee headcount triggers ADA (15+), Title VII (15+), and ADEA (20+) simultaneously, each with significant litigation exposure. Correct overtime payroll ($40 \times \$22 = \880 plus $16 \times \$33 = \$528 = \$1,408$) must be processed today, and a comprehensive employment compliance plan addressing all three statutes must be developed immediately as the parallel priority.

36. D — Immediate broker coordination on both the CGL (expiring in 15 days) and the builders' risk (expiring in 20 days) prevents coverage gaps that would expose the contractor to uninsured loss. Prompt CGL claim notification of the \$55,000 defective work matter preserves coverage on the warranty claim, because late notice can forfeit coverage even on otherwise covered matters.

37. A — Federal procurement insurance requirements are conditions precedent to award, and the 5-day bid window requires immediate broker engagement to obtain endorsements, binders, and certificates before submission. Increasing the CGL to \$2 million, obtaining new professional liability at \$1.5 million, and confirming builders' risk availability are all achievable within 5 days with prompt broker action.

38. B — High-frequency incidents signal systemic safety failures affecting workers' comp experience modification, OSHA exposure, bonding capacity, and project safety simultaneously. A comprehensive safety system review — root cause analysis, JHA updates, supervisor retraining, corrective action documentation, and a formal written improvement plan — addresses the underlying problem across all affected dimensions.

39. C — The mutual waiver of subrogation, supported by the flow-down clause in the subcontract and policy endorsements, binds the insurer to honor the waiver and prevents subrogation against the sub. Confirming the waiver's scope and notifying the insurer protects the contractual arrangement; permitting subrogation would breach it.

40. D — The 8-hour fatality reporting deadline under 29 CFR 1904.39 runs from the time of employer knowledge (9:30 AM Monday), making the deadline 5:30 PM Monday. Missing the jurisdictional deadline triggers separate citations independent of the underlying incident; witness statements, scene preservation, log entries, and carrier notice can all proceed in parallel with the OSHA report.

41. B — The 24-hour hospitalization reporting deadline under 29 CFR 1904.39 is jurisdictional and runs from the time of employer knowledge (4:00 PM Wednesday), making the deadline 4:00 PM Thursday. Missing it triggers separate citations; all other priorities — scene preservation, log entry, carrier notice — can proceed in parallel with the OSHA report.

42. A — Each compliance obligation is imminent and carries separate enforcement exposure: the OSHA 300 Log entry window is on day 6 of 7 and must be completed today, the SWPPP must be developed before the NPDES NOI is filed, and the Form 300A must be posted on February 1. All three must be addressed in parallel with sequencing based on imminence and statutory consequence.

43. D — Each closeout obligation carries separate compliance consequences and none may be deferred to accommodate another. Substantial completion (week 4) stops LD accrual, OSHA 300A (week 5) is a regulatory posting deadline, NPDES NOT (week 6) requires confirmed site stabilization, and payroll year-end filings carry IRS penalty exposure — addressing each in calendar sequence is the correct priority structure.

44. C — A formal, documented time extension request with CPM analysis and owner steel delivery records converts 5 days of LD exposure (\$15,000 at \$3,000/day) into a no-LD outcome if granted. The owner's verbal acknowledgment is not contractually protective, and continued performance preserves the right to final payment and retainage.

45. D — Prompt request for release of the bulk of the \$180,000 retainage at substantial completion (typically \$162,000, retaining \$18,000 to secure punch list completion) is standard contract practice and the contractor's right. The released funds address the \$75,000 in sub retainages owed, managing downstream cash flow while continued punch list completion releases the remainder at final completion.

46. B — Granting the sub's 15-day extension without schedule analysis is incorrect because the extension consumes all 8 days of available float and drives the activity 7 days onto the critical path. The CPM update quantifies the 7-day project delay, which must be captured in the change order and supported by a formal time extension request to the owner.

47. C — The 6-month original-contractor lien filing deadline from last item furnished (February 1 → August 1) is jurisdictional and unforgiving; missing it permanently forfeits the \$140,000 secured claim against the property. Filing the verified lien statement in probate court before August 1 and preparing the enforcement lawsuit within 6 months of filing protects the contractor's full secured position.

48. A — The materialman's 4-month lien filing deadline from last item furnished (April 1 → August 1) is shorter than the original contractor's 6-month deadline, and missing it permanently forfeits the secured interest in the property. Filing the verified lien statement before August 1 and preparing the enforcement lawsuit within 6 months of lien filing protects the full \$95,000 claim.

49. D — Entity choice carries significant and permanent tax, liability, and operational consequences that vary by individual circumstances and require professional analysis before forming. Evaluation by a CPA and tax counsel of the LLC, S corporation, and C corporation options in the context of the contractor's actual financial profile and growth plans is the critical priority over any single default selection.

50. B — The Operating Agreement is the LLC's foundational governance document and must be in place before contracting work creates the member disputes it is designed to resolve. The LLC defaults to partnership taxation without any election, making partnership treatment the starting point; tax classification and state tax registration are important but downstream of governance.