

PRACTICE EXAM 11: TENNESSEE BUSINESS AND LAW SIMULATION (50 QUESTIONS)

Time Limit: 2 Hours and 20 Minutes (140 Minutes)

Total Questions: 50

Passing Score: 73% (37 out of 50)

1. A Tennessee contractor has total assets of \$2,100,000, total liabilities of \$1,500,000, current assets of \$620,000, and current liabilities of \$280,000. The contractor applies for a license. The Board calculates the monetary limit and determines the required financial statement type. The monetary limit and required statement are:

- A. \$3,400,000 with a reviewed financial statement because working capital drives the calculation
- B. \$6,000,000 with an audited financial statement because net worth exceeds \$500,000
- C. \$3,400,000 with an audited financial statement because the monetary limit exceeds \$3,000,000
- D. \$6,000,000 with a reviewed financial statement because the lesser value is under \$600,000

2. A contractor signs a subcontract requiring the subcontractor to begin mobilization within 10 days of the notice to proceed. The subcontract also contains a flow-down clause incorporating the terms of the prime contract. The subcontractor asks what a flow-down clause means for their obligations. The correct explanation is:

- A. The subcontractor is bound by the same terms and conditions as the general contractor under the prime contract, to the extent applicable to the subcontractor's scope of work
- B. The subcontractor receives all payments directly from the project owner rather than through the general contractor
- C. The general contractor's profit margin is shared equally with the subcontractor on a pro-rata basis
- D. The subcontractor assumes the general contractor's insurance obligations in full for the duration of the project

3. A general contractor on a hospital expansion project receives an RFI response from the architect that modifies the ceiling grid layout in the radiology suite. The modification requires

additional structural supports not shown on the original drawings. The general contractor's appropriate next step is:

- A. Install the additional supports and include the cost in the regular monthly pay application without separate documentation
- B. Prepare and submit a change order proposal to the owner documenting the cost and time impact of the additional structural supports before performing the work
- C. Refuse to perform the work because the architect does not have the authority to modify structural elements
- D. Contact the Tennessee Board for Licensing Contractors to obtain authorization for the structural modification

4. A Tennessee contractor organized as a sole proprietorship wants to convert to an LLC. The contractor's existing license has a monetary limit of \$1,200,000. After the conversion, the contractor must:

- A. Continue operating under the existing license because entity conversions do not affect licensing status
- B. Retake both the Business and Law exam and the trade exam under the new entity name
- C. Wait 12 months after the LLC formation before applying for a new license in the LLC's name
- D. Register the LLC with the Secretary of State, update the license with the Board to reflect the new entity, obtain new insurance in the LLC's name, and submit a new financial statement for the LLC

5. A construction project's specifications require the contractor to install a specific brand of commercial door hardware — "Schlage ND Series" — with no "or equal" language. The contractor finds an equivalent product from a different manufacturer at 30% lower cost. Under the contract, the contractor:

- A. May install the lower-cost alternative because Tennessee law requires contractors to use the most cost-effective materials available
- B. May install the alternative if the contractor provides a written justification showing the products are functionally equivalent
- C. Must install the Schlage ND Series as specified because the proprietary specification without "or equal" language does not permit substitutions without the architect's express written approval
- D. May install either product because all commercial door hardware is interchangeable under building codes

6. Under Tennessee's at-will employment doctrine, which of the following scenarios represents a LAWFUL termination?

- A. Terminating an employee because the company lost a major contract and must reduce its workforce by 25% to remain financially viable
- B. Terminating an employee because they reported an OSHA safety violation to the compliance hotline
- C. Terminating an employee because they refused to falsify building inspection records at the supervisor's direction
- D. Terminating an employee because they filed a workers' compensation claim after a jobsite shoulder injury

7. A contractor's CGL insurance policy includes a \$25,000 deductible per occurrence. During the policy year, the contractor has three separate covered claims: Claim A for \$15,000, Claim B for \$40,000, and Claim C for \$60,000. The total amount the contractor pays out of pocket for deductibles across all three claims is:

- A. \$25,000 because the deductible applies once per policy year regardless of the number of claims
- B. \$15,000 because the deductible cannot exceed the smallest claim amount
- C. \$60,000 representing the full amount of the largest individual claim
- D. \$65,000 — \$15,000 for Claim A (full amount below deductible), \$25,000 for Claim B (deductible applied), and \$25,000 for Claim C (deductible applied)

8. A Tennessee contractor is preparing a bid for a state-funded community college classroom building. No federal funding is involved in the project. Regarding prevailing wage requirements, the contractor should:

- A. Pay Davis-Bacon prevailing wages because all educational facility construction requires prevailing wages
- B. Pay market-rate wages because Tennessee does not have a state prevailing wage law and Davis-Bacon applies only to federally funded projects
- C. Pay wages set by the Tennessee Department of Education for all workers on educational facility projects
- D. Pay prevailing wages determined by the Tennessee Department of Labor for all state-funded construction

9. A project owner hires a Construction Manager at Risk (CMAR) during the design phase. The CM provides pre-construction services including cost estimating and constructability review. At 75% design completion, the CM provides a Guaranteed Maximum Price (GMP) of

\$4,200,000. During construction, actual costs total \$3,950,000. The contract includes a 60/40 savings sharing clause (60% to owner, 40% to CM). What is the CM's share of the savings?

- A. \$250,000 representing the full savings because the CM is entitled to all cost reductions under GMP contracts
- B. \$150,000 representing 60% of the savings allocated to the CM under the sharing formula
- C. \$100,000 representing 40% of the \$250,000 savings below the GMP
- D. Zero because the CM already received the GMP amount and savings belong entirely to the owner

10. Under OSHA's electrical safety standards for construction, ground-fault circuit interrupter (GFCI) protection is required for:

- A. All 120-volt, single-phase, 15- and 20-ampere receptacle outlets that are not part of the permanent wiring of the building and are in use by employees on construction sites
- B. Only outlets located within 6 feet of water sources such as sinks, hoses, and standing water
- C. Only main electrical panels and distribution boards with amperage ratings exceeding 200 amps
- D. All electrical equipment operating at 240 volts or higher on construction sites

11. A Tennessee contractor receives a \$45,000 deposit from a homeowner for a kitchen renovation. After receiving the deposit, the contractor does not begin work for six weeks and does not communicate with the homeowner during this period. The homeowner demands a refund. The contractor's failure to begin work and communicate may constitute:

- A. A standard industry practice because contractors typically schedule work 6-8 weeks after receiving deposits
- B. Potential grounds for a Board complaint and breach of contract claim, as the contractor has accepted payment, failed to perform, and failed to maintain communication with the client
- C. An acceptable delay that is fully protected by the at-will nature of contractor-client relationships
- D. A licensing violation only if the total project cost exceeds \$100,000

12. A contractor's project superintendent maintains a daily log. On a particular day, the architect verbally instructs the superintendent to change the exterior paint color from the specified Sherwin-Williams "Naval" to Benjamin Moore "Hale Navy." The superintendent should:

- A. Change the paint color immediately because verbal instructions from the architect are binding on the contractor
- B. Ignore the verbal instruction because only written directives from the project owner are enforceable

- C. Implement the change and add the cost difference to the project contingency fund without documentation
- D. Record the verbal instruction in the daily log, send a written confirmation to the architect documenting the direction, and process a change order if the color change affects cost or differs from the contract documents

13. A Tennessee contractor organized as a corporation has two equal shareholders. The corporation's financial statement shows net worth of \$400,000 and working capital of \$250,000. One shareholder wants to take a \$150,000 distribution from the company. If the distribution is taken, the impact on the contractor's monetary limit would be:

- A. No impact because shareholder distributions do not affect net worth or working capital
- B. The monetary limit would increase because reducing cash on hand improves the working capital ratio
- C. The monetary limit would decrease because the distribution reduces net worth to \$250,000 and potentially reduces working capital, making the lesser value lower and reducing the 10× calculation
- D. The distribution is prohibited by the Board until the next annual financial statement is submitted

14. Under OSHA's scaffolding standard, who must supervise the erection, dismantling, and alteration of scaffolds?

- A. A competent person who can identify hazards associated with scaffolding and has authority to take corrective action
- B. A registered professional engineer licensed in the state where the project is located
- C. An OSHA-certified scaffold inspector with a current federal certification card
- D. The project owner's safety representative who has completed a 40-hour OSHA course

15. A contractor on a private residential project furnished labor and materials through March 20. On June 10, the contractor serves a Notice of Nonpayment on the property owner. On June 17, the contractor files a mechanic's lien with the Register of Deeds. Are the contractor's lien rights preserved?

- A. No, because the Notice of Nonpayment must be served at least 30 days before the lien is filed
- B. No, because the contractor is a prime contractor and cannot file a lien on residential property
- C. Yes, but only for the labor component of the claim — material costs are excluded from residential liens

D. Yes, because both the Notice of Nonpayment (served on Day 82) and the lien filing (on Day 89) fall within the 90-day deadline from the last day of furnishing (March 20)

16. A contractor's project has a contractual completion date with a liquidated damages clause of \$2,500 per calendar day. The contractor completes the project 12 days late. However, the contractor claims that 8 of those 12 days were caused by the owner's failure to provide timely approvals on finish material selections. If the contractor properly documented the owner-caused delays with written notice at the time they occurred, the liquidated damages assessment should be:

- A. \$30,000 representing the full 12 days because the contractor failed to mitigate the delay
- B. \$10,000 representing only the 4 days of contractor-caused delay, since the 8 owner-caused days should result in a time extension that eliminates those days from the liquidated damages calculation
- C. \$20,000 representing 8 days because owner-caused delays are assessed at double the daily rate
- D. Zero because any owner-caused delay voids the entire liquidated damages clause for the project

17. A Tennessee contractor wants to self-perform electrical work as part of a larger residential renovation project. The electrical portion of the project is valued at \$22,000. Does the contractor need a separate electrical license for this work?

- A. Yes, because all electrical work requires a CE (Electrical Contractor) license regardless of the dollar amount
- B. Yes, because residential electrical work has a lower licensing threshold of \$10,000 under Tennessee law
- C. No, because the electrical portion is below the \$25,000 threshold that triggers the requirement for a separate trade-specific license
- D. No, because any contractor with a valid BC-A license can perform electrical work at any dollar value

18. A contractor's financial statement is prepared using accrual basis accounting and the percentage of completion method. The contractor has a project with a \$1,000,000 contract price and estimated total costs of \$800,000. At year-end, actual costs incurred are \$320,000. The revenue recognized for the year is:

- A. \$400,000, calculated as $(\$320,000 \div \$800,000) \times \$1,000,000 = 40\% \text{ completion} \times \text{contract price}$
- B. \$320,000, equal to the actual costs incurred because revenue cannot exceed costs

- C. \$1,000,000, representing the full contract price because the contract has been signed
- D. \$500,000, representing 50% of the contract price based on the midpoint of the project

19. A Tennessee contractor organized as a general partnership dissolves when one of the two partners retires. The contractor's license was issued in the partnership's name. What happens to the license?

- A. The license automatically transfers to the remaining partner as the sole proprietor of the ongoing business
- B. The remaining partner can continue using the partnership license for up to 12 months during the transition
- C. The license is suspended pending an investigation by the Board into the circumstances of the dissolution
- D. The license becomes invalid because the entity that held the license no longer exists — the remaining partner must apply for a new license under a new entity structure

20. A contractor's project is 80% complete when the owner notifies the contractor that they are withholding the next progress payment due to concerns about punch list items on the completed portions of the work. The contractor believes the concerns are minor and do not justify withholding an entire progress payment. The contractor's most appropriate response is:

- A. File a mechanic's lien immediately and stop all work until the payment dispute is resolved
- B. Send a written objection to the owner documenting the completed work, addressing the punch list concerns, and requesting payment for the undisputed portions — continue performing the work while pursuing the dispute through contractual procedures
- C. Terminate the contract for cause due to the owner's breach of the payment obligation
- D. Reduce the project quality for the remaining 20% of work to offset the financial impact of the withheld payment

21. A Tennessee contractor's employee is diagnosed with carpal tunnel syndrome caused by years of operating vibrating power tools on construction sites. The employee files a workers' compensation claim. Under Tennessee law, this type of claim is classified as:

- A. An occupational disease claim, which is covered by workers' compensation because the condition arose out of and in the course of employment
- B. A personal health condition that is excluded from workers' compensation because it developed gradually rather than from a single incident
- C. A product liability claim against the manufacturer of the power tools rather than a workers' compensation claim

D. An OSHA violation claim that must be filed with the federal government rather than through the state workers' compensation system

22. A contractor is performing a concrete pour for a commercial building foundation. The ready-mix supplier delivers 28-day design strength concrete with documentation showing the mix design and batch ticket information. The contract specifications require the contractor to have test cylinders cast and tested. The testing required for concrete typically includes:

A. Only a visual inspection by the project superintendent to confirm the concrete appears to be the correct consistency

B. Only a slump test at the time of delivery to verify the workability of the mix

C. A compression test performed immediately at the jobsite before the concrete is placed in the forms

D. Compressive strength testing of concrete cylinders cast at the time of placement, tested at 7 days and 28 days to verify the concrete meets the specified design strength

23. A Tennessee contractor wants to register for the Drug-Free Workplace Program to receive the workers' compensation premium credit. The program requires four types of drug testing. One of the mandatory testing categories is "reasonable suspicion" testing. This type of testing is conducted when:

A. An employee requests a voluntary drug test to demonstrate their compliance with the program

B. A supervisor observes specific, contemporaneous indicators such as physical symptoms, behavior patterns, or performance issues that suggest an employee may be under the influence of drugs or alcohol

C. The company reaches the one-year anniversary of enrolling in the Drug-Free Workplace Program

D. An employee is promoted to a supervisory position and must be tested before assuming management duties

24. A contractor's balance sheet shows accounts receivable of \$340,000. Of this amount, \$85,000 is from a single customer whose account is more than 120 days past due and the customer has filed for bankruptcy. The contractor's CPA recommends writing off the \$85,000 as uncollectible. The impact of this write-off on the contractor's balance sheet is:

A. Total assets decrease by \$85,000, net worth decreases by \$85,000, and working capital decreases by \$85,000

B. Only the income statement is affected — the balance sheet remains unchanged until the bankruptcy is finalized

- C. Total assets decrease by \$85,000, which reduces net worth by \$85,000 and reduces working capital by \$85,000 — both of which reduce the monetary limit calculation
- D. The write-off increases net worth because it removes an uncollectible asset and improves the quality of the balance sheet

25. A Tennessee contractor receives a stop-work order from the local building department because the contractor began foundation work before the building permit was issued. The contractor claims they had a verbal approval from the building official. Under Tennessee construction law:

- A. The contractor must comply with the stop-work order immediately because verbal approvals are not valid substitutes for issued building permits — work cannot legally commence until the written permit is in hand
- B. The verbal approval from the building official is sufficient authorization to begin work and the stop-work order is invalid
- C. The contractor can continue work if they post a cash bond equal to the permit fee until the written permit is issued
- D. Stop-work orders are advisory only and do not carry enforcement authority in Tennessee

26. A contractor's project cost report shows that the mechanical subcontractor's work is 65% complete, but the subcontractor has billed for 80% of their subcontract value. This condition is known as:

- A. Underbilling, which indicates the subcontractor has performed more work than they have been paid for
- B. Cost overrun, which means the subcontractor's actual costs have exceeded their original estimate
- C. Front-loading, which is an acceptable billing practice that allows subcontractors to recover mobilization costs
- D. Overbilling, which means the subcontractor has billed more than the value of work actually completed and may indicate cash flow problems or intentional billing manipulation

27. Under the Clean Water Act, construction site stormwater runoff is regulated because it can carry pollutants into nearby waterways. The primary pollutant of concern from construction sites is:

- A. Carbon monoxide emissions from construction equipment exhaust
- B. Sediment from disturbed soil, which is the largest source of water pollution from construction activities
- C. Noise pollution from heavy equipment operations that affects aquatic ecosystems

D. Light pollution from nighttime construction operations that disrupts wildlife migration patterns

28. A contractor is preparing to bid on a project and wants to verify that their license classification and monetary limit are adequate. The project is a 4-story commercial office building with an estimated construction cost of \$8,500,000. Which license classification and minimum monetary limit are required?

A. BC (Building Contractor) or BC-B (Commercial Contractor) classification with a monetary limit of at least \$8,500,000

B. BC-A,b (Residential/Small Commercial) classification with a monetary limit of at least \$1,500,000

C. Any Tennessee contractor license classification with a monetary limit exceeding \$5,000,000

D. BC-A (Residential Contractor) classification because 4-story buildings fall within the residential height limit

29. A Tennessee contractor's workers' compensation carrier denies a claim filed by an employee who was injured while commuting to the jobsite in the morning. The carrier's denial is most likely based on the principle that:

A. Workers' compensation only covers employees who have been with the company for more than 90 days

B. Injuries sustained during the regular commute to and from work are generally excluded under the "going and coming" rule

C. The injury must result in at least 3 days of lost work time before workers' compensation benefits are triggered

D. Workers' compensation does not cover injuries sustained before 7:00 AM or after 5:00 PM

30. A contractor's project superintendent discovers that a concrete subcontractor has been using a water-to-cement ratio that is higher than the specifications allow, resulting in weaker concrete. The superintendent observes this on a Friday afternoon after the concrete has been placed but has not yet cured. The superintendent's most appropriate action is:

A. Wait until Monday to discuss the issue with the project manager before taking any action

B. Document the observation immediately, photograph the conditions, notify the structural engineer and project manager, and request direction on whether the placed concrete must be removed and replaced before it cures over the weekend

C. Accept the concrete as placed because removing fresh concrete is impractical and wasteful

D. Issue a verbal warning to the concrete subcontractor and allow the concrete to cure with the understanding that future pours must comply

31. A Tennessee contractor organized as an LLC has three members. Member A contributes \$200,000 in capital, Member B contributes \$100,000, and Member C contributes specialized construction management expertise but no capital. The LLC's operating agreement is silent on profit distribution. Under Tennessee's default LLC provisions, profits are distributed:

- A. Proportionally based on capital contributions — 50% to Member A, 25% to Member B, and 25% to Member C
- B. In whatever manner the members unanimously agree upon at the time of each distribution
- C. Equally among all members regardless of their respective capital contributions
- D. Based on each member's percentage of ownership, which defaults to equal shares in the absence of a contrary agreement in most jurisdictions, though Tennessee's specific default rules should be verified

32. A construction project requires the installation of a temporary construction elevator for worker access to upper floors. Under OSHA regulations, who is responsible for inspecting the temporary elevator before each shift?

- A. The project owner's insurance adjuster who covers the builder's risk policy
- B. A competent person designated by the employer, who must inspect the elevator before each work shift for defects, damage, and operational safety
- C. An OSHA compliance officer who must visit the site daily to certify the elevator's safe operation
- D. The elevator manufacturer's factory representative who must be on site during all operating hours

33. A contractor's estimator receives a supplier quote for mechanical insulation that includes the notation "FOB Origin." This shipping term means:

- A. The supplier delivers the material to the jobsite at no additional shipping charge to the contractor
- B. The material price includes installation labor by the supplier's certified installers
- C. The contractor takes ownership and risk of the material at the supplier's shipping point, and the contractor is responsible for all shipping costs and transit risk from that point forward
- D. The material is being shipped from a foreign origin and requires customs clearance

34. A Tennessee contractor performing demolition work on a 1965 residential property is required to test for asbestos and lead-based paint before proceeding. The contractor skips the testing and proceeds with demolition. Which regulatory agencies may take enforcement action?

- A. Both TDEC (for asbestos violations) and the EPA (for lead and asbestos under NESHAP and RRP regulations), with potential fines, stop-work orders, and mandatory cleanup
- B. Only OSHA, because demolition safety falls exclusively under federal workplace safety jurisdiction
- C. Only the local building department, which has exclusive enforcement authority for demolition practices
- D. No agency has enforcement authority over demolition of residential properties under 5,000 square feet

35. A contractor's project has the following CPM schedule data for Activity H: Early Start = Day 20, Early Finish = Day 28, Late Start = Day 20, Late Finish = Day 28. The total float for Activity H is:

- A. 8 days, calculated as the difference between early finish and early start
- B. 28 days, calculated as the late finish value
- C. 20 days, calculated as the early start value
- D. Zero days, indicating Activity H is on the critical path because the early and late dates are identical

36. A Tennessee contractor receives a request from a real estate developer to build a 12-unit apartment complex. The contractor holds a BC-A (Residential Contractor) license. Can the contractor accept this project?

- A. Yes, because all apartment buildings are classified as residential construction regardless of the number of units
- B. No, because the BC-A classification is limited to one- to four-family residences not exceeding three stories — a 12-unit apartment complex exceeds this scope and requires a BC or BC-B classification
- C. Yes, if the contractor obtains a temporary classification upgrade from the Board before beginning construction
- D. Yes, because the BC-A classification covers up to 20 residential units in a single structure

37. A contractor's insurance agent recommends adding an inland marine policy to the contractor's insurance program. Inland marine insurance provides coverage for:

- A. Flood damage to construction projects located in FEMA-designated flood zones
- B. Liability claims arising from construction work performed near rivers, lakes, and coastal waterways
- C. The contractor's tools, equipment, and materials while in transit or stored at locations other than the contractor's permanent premises
- D. Marine cargo insurance for construction materials imported from overseas manufacturers

38. Under Tennessee law, when a contractor's license is revoked by the Board, the contractor must go through which process to become relicensed?

- A. File an appeal with the Tennessee Court of Appeals within 30 days and continue operating during the appeal
- B. Wait one year and then have the revocation automatically lifted by the Board without further action
- C. Pay a \$5,000 reinstatement fee and the license is automatically restored with the original classification and monetary limit
- D. Complete the entire licensing process from scratch — retake all required exams, submit a new application with a new financial statement, obtain new insurance, and meet all current licensing requirements

39. A contractor's project includes a retainage clause of 10% on all progress payments. The contract price is \$1,600,000. After 8 months and \$1,200,000 in approved progress billing, the total retainage held by the owner is:

- A. \$120,000, calculated as 10% of the total progress billings to date ($\$1,200,000 \times 10\%$)
- B. \$160,000, calculated as 10% of the full contract price regardless of progress
- C. \$80,000, calculated as 10% of the remaining unbilled contract balance
- D. \$40,000, calculated as a declining percentage that reduces as the project approaches completion

40. A contractor is evaluating their overhead rate. The company's annual general and administrative expenses total \$420,000, and the company's projected annual revenue is \$3,500,000. The company's overhead rate as a percentage of revenue is:

- A. 8.3%, which is below the typical range for construction companies
- B. 14.3%, calculated by dividing overhead by projected net income rather than revenue
- C. 12%, calculated as $\$420,000 \div \$3,500,000$
- D. 20%, representing the industry standard overhead rate for all Tennessee contractors

41. A Tennessee contractor's project superintendent witnesses a subcontractor's employee remove a guardrail from a scaffold platform to hoist materials. After the materials are hoisted, the employee does not reinstall the guardrail and continues working on the unprotected platform at 18 feet. The superintendent should:

- A. Document the observation in the daily report but take no immediate action because the employee works for the subcontractor

B. Direct the subcontractor to reinstall the guardrail immediately, stop work on the platform until the guardrail is in place, and document the incident — the general contractor has a duty to address recognized hazards on the worksite

C. Report the observation to OSHA and wait for an inspector to arrive before taking corrective action

D. Allow the employee to continue working because the guardrail was removed for a legitimate work purpose

42. A contractor's project schedule shows the following parallel paths: Path A = 120 days, Path B = 108 days, Path C = 135 days. If the contractor can shorten Path C by 10 days through schedule compression (crashing), the new project duration would be:

A. 125 days, because Path C at 135 days is the critical path and reducing it by 10 days makes it 125 days — but wait, Path C would become 125 days while Path A remains 120 days, so Path C is still the longest and the project duration is 125 days

B. 120 days, because after reducing Path C to 125 days, Path A at 120 days becomes the new critical path

C. 108 days, because Path B becomes the critical path after shortening Path C

D. 125 days, because the critical path is reduced from 135 to 125 days and remains the longest path

43. A Tennessee contractor performing site work discovers that the proposed building pad is located partially within a jurisdictional wetland that was not identified in the environmental assessment provided with the bid documents. The contractor's immediate obligation is to:

A. Stop work in the wetland area, notify the owner and engineer, and report the discovery — work in jurisdictional wetlands requires an Aquatic Resource Alteration Permit (ARAP) from TDEC, which must be obtained before any disturbance

B. Continue grading through the wetland because the bid documents did not identify it and the contractor is not responsible for environmental conditions

C. Fill the wetland with clean soil and compact it to create a suitable building pad as long as the fill material is certified clean

D. Relocate the building pad at the contractor's own expense because the contractor should have discovered the wetland during the pre-bid site visit

44. A contractor's CGL policy expires on December 31. On January 15 of the following year, a claim is filed for property damage that occurred on December 20, while the policy was in effect. The contractor's CGL policy was written on an "occurrence" basis. Will the expired policy cover this claim?

A. No, because the policy has expired and no claims can be filed after the policy termination date

B. No, because the contractor must file all claims within 10 days of the policy expiration

- C. Yes, because an occurrence-based policy covers claims arising from incidents that occurred during the policy period, regardless of when the claim is actually filed
- D. Yes, but only if the contractor purchased an extended reporting period endorsement (tail coverage) before the policy expired

45. A Tennessee contractor wants to expand into HVAC work. The contractor currently holds a BC-A (Residential Contractor) license. To perform HVAC installation work valued at \$30,000 on a commercial project, the contractor needs:

- A. A CMC-C (Mechanical HVAC/Refrigeration Contractor) license, obtained by passing the CMC-C trade exam and the Business and Law exam — the BC-A license does not authorize HVAC work exceeding \$25,000
- B. Only an endorsement added to the existing BC-A license by filing a form with the Board
- C. A general contractor's license upgrade from BC-A to BC, which automatically includes HVAC authority
- D. No additional license because HVAC work under \$50,000 is covered under all residential license classifications

46. A contractor's project has been substantially complete for 10 months. The one-year warranty expires in 2 months. The owner has not requested a warranty inspection. From a best-practice standpoint, the contractor should:

- A. Wait for the owner to identify warranty items because the burden is on the owner to report deficiencies
- B. Take no action until the warranty expires and then send a formal letter confirming the end of the warranty period
- C. File a mechanic's lien to protect against potential warranty claims that might arise in the final 2 months
- D. Proactively schedule an 11-month warranty walkthrough with the owner to identify and correct any deficiencies before the warranty expires — this demonstrates professionalism and builds long-term client relationships

47. A contractor's estimator is calculating the burdened labor rate for a journeyman carpenter. The base wage is \$32.00 per hour. The estimator adds: FICA employer share (7.65%), FUTA/SUTA combined (2.5%), workers' compensation (12%), and health insurance (\$4.50/hour). The approximate burdened rate is:

- A. \$32.00 because employer-paid costs are classified as overhead and not included in the direct labor rate

- B. Approximately \$43.59, calculated as $\$32.00 \times 1.2215$ (base \times combined percentage burden) + \$4.50 health insurance per hour
- C. Approximately \$56.15 including a mandatory 75% burden rate applied to all construction labor
- D. Approximately \$39.50 including only the FICA and health insurance components

48. A contractor discovers that a recently hired project manager has been submitting inflated pay applications to the owner — billing for work not yet performed and materials not yet delivered. This practice is:

- A. An acceptable acceleration of cash flow that is common in the construction industry
- B. A legitimate billing strategy known as "front-loading" that is permitted under standard contract forms
- C. Fraudulent overbilling that exposes the contractor to breach of contract claims, potential criminal charges for fraud, and Board disciplinary action
- D. A minor accounting discrepancy that will be corrected automatically during the retainage reconciliation at project completion

49. A Tennessee contractor is preparing to take the PSI Business and Law exam. The contractor asks how long they have to complete the 50-question exam. The time limit is:

- A. 2 hours and 20 minutes (140 minutes), allowing approximately 2 minutes and 48 seconds per question
- B. 3 hours (180 minutes), allowing 3 minutes and 36 seconds per question
- C. 2 hours (120 minutes), allowing 2 minutes and 24 seconds per question
- D. 5 hours (300 minutes), matching the time limit for the trade exams

50. A contractor's project involves excavating a trench adjacent to an occupied residential property. The contractor's excavation causes the neighbor's retaining wall to crack and partially collapse. The neighbor files a property damage claim. This claim would be covered under:

- A. The contractor's workers' compensation insurance because the damage occurred during construction operations
- B. The neighbor's homeowner's insurance because the retaining wall is on the neighbor's property
- C. The contractor's builder's risk insurance because the damage is related to the construction project
- D. The contractor's Commercial General Liability (CGL) insurance, which covers third-party property damage claims arising from the contractor's operations

Practice Exam 11: Answer Key and Explanations

1. C — Net worth = $\$2,100,000 - \$1,500,000 = \$600,000$. Working capital = $\$620,000 - \$280,000 = \$340,000$. The lesser value is $\$340,000$. Monetary limit = $10 \times \$340,000 = \$3,400,000$. Since $\$3,400,000$ exceeds $\$3,000,000$, a CPA-audited financial statement is required.
2. A — A flow-down clause binds the subcontractor to the same terms and conditions that govern the general contractor under the prime contract, to the extent those terms are applicable to the subcontractor's work. This ensures consistent quality standards, safety requirements, change order procedures, and dispute resolution across the project.
3. B — When an RFI response requires work beyond the original scope (additional structural supports not on the original drawings), the contractor should submit a change order proposal documenting the cost and time impact before performing the work. Proceeding without written authorization risks nonpayment for the additional scope.
4. D — Converting from a sole proprietorship to an LLC requires multiple steps: forming the LLC with the Secretary of State, updating the license with the Board to reflect the new entity, obtaining new insurance policies in the LLC's name, and submitting a new financial statement for the LLC entity.
5. C — A proprietary specification that names a specific product without "or equal" language does not permit substitutions unless the architect expressly approves an alternative in writing. The contractor is contractually obligated to install the specified product regardless of cost considerations.
6. A — Terminating employees due to a legitimate business downturn (losing a major contract, reducing workforce for financial viability) is a lawful exercise of at-will employment. Options B, C, and D are all unlawful: retaliation for safety complaints, retaliation for refusing illegal conduct, and retaliation for workers' compensation claims.
7. D — The deductible applies per occurrence, not per policy year. Claim A ($\$15,000$) is entirely below the deductible — contractor pays $\$15,000$. Claim B ($\$40,000$) — contractor pays $\$25,000$ deductible, insurer pays $\$15,000$. Claim C ($\$60,000$) — contractor pays $\$25,000$ deductible, insurer pays $\$35,000$. Total out-of-pocket: $\$65,000$.
8. B — Tennessee does not have a state prevailing wage law. Davis-Bacon prevailing wage requirements apply only to federally funded projects. A state-funded community college project with no federal funding is not subject to any prevailing wage requirements. The contractor pays market-rate wages.
9. C — Savings = GMP ($\$4,200,000$) – actual costs ($\$3,950,000$) = $\$250,000$. The 60/40 sharing clause gives 60% to the owner and 40% to the CM. CM's share = $40\% \times \$250,000 = \$100,000$. Savings sharing clauses incentivize the CM to control costs below the GMP.

10. A — OSHA requires GFCI protection for all 120-volt, single-phase, 15- and 20-ampere receptacle outlets on construction sites that are not part of the permanent wiring of the building. This protection guards against electrocution from ground faults in the temporary electrical systems used during construction.

11. B — Accepting a deposit and then failing to begin work or communicate with the client for six weeks may constitute breach of contract and grounds for a Board complaint. The Board investigates complaints of contractor misconduct, and the homeowner may also have civil remedies for breach of contract and recovery of the deposit.

12. D — Verbal instructions from the architect should be documented — recorded in the daily log and confirmed in writing. If the color change deviates from the contract specifications, it should be processed as a change order. Verbal directions without written confirmation are difficult to enforce and create dispute risk.

13. C — A \$150,000 distribution reduces the corporation's retained earnings and therefore net worth from \$400,000 to \$250,000. If the distribution also reduces cash (a current asset), working capital decreases as well. The monetary limit, calculated as 10× the lesser value, would decrease accordingly.

14. A — OSHA's scaffolding standard requires scaffold erection, dismantling, and alteration to be supervised by a competent person — someone who can identify scaffolding hazards and has the authority to take immediate corrective action. A professional engineer is required for design, but a competent person supervises the physical work.

15. D — The last day of furnishing was March 20. The 90-day deadline is approximately June 18. The Notice of Nonpayment was served on June 10 (Day 82) and the lien was filed on June 17 (Day 89). Both are within the 90-day window from the last day of furnishing.

16. B — When delays are caused by the owner and the contractor properly documented them with written notice, the contractor is entitled to a time extension for the owner-caused delay days. Liquidated damages should only be assessed for the 4 days of contractor-caused delay: $4 \times \$2,500 = \$10,000$.

17. C — Tennessee requires separate trade-specific licenses for electrical, HVAC, and plumbing work only when the value exceeds \$25,000. At \$22,000, the electrical portion is below this threshold, so the contractor can self-perform the work under their existing license without a separate CE classification.

18. A — Percentage complete = $\$320,000 \div \$800,000 = 40\%$. Revenue recognized = $40\% \times \$1,000,000 = \$400,000$. The percentage of completion method matches revenue to the proportion of work completed, providing an accurate picture of the project's financial performance during each accounting period.

19. D — When a partnership dissolves, the entity ceases to exist. The license was issued to the partnership entity, not to the individual partners. The remaining partner must establish a new

entity (sole proprietorship, LLC, etc.), apply for a new license under that entity, and meet all current licensing requirements.

20. B — The contractor should send a written objection addressing the owner's concerns, document the completed work, and request payment for undisputed portions while continuing to work. Stopping work or filing an immediate lien may escalate the situation unnecessarily and could constitute a breach by the contractor.

21. A — Carpal tunnel syndrome caused by occupational exposure to vibrating tools is classified as an occupational disease — a condition that arises gradually out of and in the course of employment. Tennessee's workers' compensation system covers occupational diseases as well as acute traumatic injuries.

22. D — Concrete testing typically involves casting test cylinders at the time of placement and testing them for compressive strength at 7 days (to verify early strength development) and 28 days (to verify the concrete has reached the specified design strength). This testing is performed by an independent testing laboratory.

23. B — Reasonable suspicion testing is conducted when a trained supervisor observes specific, contemporaneous indicators — physical symptoms, behavioral patterns, speech, appearance, body odor, or performance issues — that suggest an employee may be impaired. The observation must be documented before the test is requested.

24. C — Writing off \$85,000 in uncollectible receivables reduces accounts receivable (a current asset) by \$85,000. This reduces total assets and current assets by \$85,000, which directly reduces both net worth and working capital by \$85,000, lowering the monetary limit calculation.

25. A — Verbal approvals are not valid substitutes for issued building permits. Construction cannot legally begin until the written building permit is posted at the site. The stop-work order must be complied with immediately, and the contractor must obtain the permit before resuming work.

26. D — When a subcontractor has billed for 80% of their contract value but completed only 65% of the work, the 15% difference represents overbilling. Overbilling can indicate the subcontractor is experiencing cash flow problems and front-loading billings, or it may represent intentional billing manipulation. Either way, it requires investigation.

27. B — Sediment from disturbed soil is the primary pollutant of concern from construction sites under the Clean Water Act. Stormwater runoff carries soil particles into streams, rivers, and lakes, causing sedimentation, habitat destruction, and water quality degradation. This is why erosion and sediment controls are mandated.

28. A — A 4-story commercial office building requires either a BC (Building Contractor) or BC-B (Commercial Contractor) classification. The BC-A is limited to residential structures of

1-4 family units up to 3 stories. The contractor's monetary limit must be at least \$8,500,000 to accept this contract.

29. C — The "going and coming" rule generally excludes injuries sustained during the regular commute between home and the workplace from workers' compensation coverage. The employment relationship is considered to begin when the employee arrives at the worksite and end when they leave, not during transit.

30. B — Time is critical — the concrete has not yet cured, so correction may still be possible. The superintendent should immediately document the observation with photographs, notify the structural engineer and project manager, and request direction on whether the non-compliant concrete must be removed before it cures. Waiting until Monday could make removal far more costly.

31. D — Tennessee's default LLC provisions generally provide for equal profit distribution among members in the absence of a contrary provision in the operating agreement, though this can vary based on specific statutory interpretation. This highlights why a written operating agreement explicitly addressing profit distribution is essential.

32. B — Temporary construction elevators must be inspected by a competent person designated by the employer before each work shift. The competent person checks for defects, damage, proper operation of safety devices, and overall operational readiness before any workers are permitted to use the elevator.

33. C — FOB (Free on Board) Origin means the buyer (contractor) takes ownership and responsibility for the material at the supplier's shipping location. The contractor bears all shipping costs, transit risk, and insurance responsibility from that point forward. FOB Destination, by contrast, shifts those costs and risks to the supplier until delivery.

34. A — Both TDEC and the EPA have enforcement authority. TDEC enforces asbestos regulations under state law, and the EPA enforces the National Emission Standards for Hazardous Air Pollutants (NESHAP) for asbestos and the Renovation, Repair, and Painting (RRP) rule for lead-based paint. Both agencies can impose fines and require cleanup.

35. D — Total float = Late Start – Early Start = 20 – 20 = 0, or Late Finish – Early Finish = 28 – 28 = 0. Zero float means Activity H is on the critical path — any delay to this activity directly delays the project completion date by the same amount.

36. B — The BC-A classification is limited to one- to four-family residences not exceeding three stories. A 12-unit apartment complex exceeds the 4-family limit and requires a BC (Building Contractor) or BC-B (Commercial Contractor) classification.

37. C — Inland marine insurance covers the contractor's tools, equipment, and materials while in transit between locations or stored at temporary sites (not the contractor's permanent premises). Construction equipment is inherently mobile, making it a poor fit for standard property policies that cover items at fixed locations.

38. D — License revocation is the most severe Board action. A contractor whose license is revoked must start the entire licensing process from scratch — retaking all required exams, submitting a new application, providing a new financial statement, obtaining new insurance, and meeting all current requirements.

39. A — Retainage is calculated as a percentage of each progress payment. With 10% retainage on \$1,200,000 in total progress billings, the retainage held is $\$1,200,000 \times 10\% = \$120,000$. This amount is withheld by the owner and released upon substantial or final completion per the contract terms.

40. C — Overhead rate = annual G&A expenses \div annual revenue = $\$420,000 \div \$3,500,000 = 12\%$. This rate is applied to each project's direct costs to ensure every project contributes its proportional share of the company's overhead recovery. Typical overhead rates for construction companies range from 8% to 25%.

41. B — The general contractor has a duty to address recognized hazards on the worksite under OSHA's multi-employer policy. The superintendent should direct the subcontractor to reinstall the guardrail immediately, stop work on the unprotected platform, and document the incident. An 18-foot fall from an unguarded scaffold could be fatal.

42. D — Path C is the critical path at 135 days. Reducing it by 10 days makes it 125 days. Path A is 120 days and Path B is 108 days. Since $125 > 120 > 108$, Path C remains the longest path at 125 days, which is the new project duration. Path A would need to be checked if Path C were reduced below 120.

43. A — Jurisdictional wetlands are protected under both federal (Clean Water Act Section 404) and Tennessee (TDEC Aquatic Resource Alteration Permit) regulations. The contractor must stop work in the wetland area, notify the owner and engineer, and obtain the required permits before any disturbance of the wetland can occur.

44. C — An occurrence-based CGL policy covers claims arising from incidents that occurred during the policy period, regardless of when the claim is actually filed. The property damage occurred on December 20 while the policy was in effect, so the policy covers this claim even though it was filed after the policy expired on December 31.

45. A — HVAC work valued at \$30,000 exceeds the \$25,000 threshold that triggers the requirement for a separate trade license. The contractor needs a CMC-C (Mechanical HVAC/Refrigeration Contractor) license, which requires passing the CMC-C trade exam. The BC-A license does not authorize HVAC work above \$25,000.

46. D — Proactively scheduling an 11-month warranty walkthrough is a best practice that demonstrates professionalism. It allows the contractor to identify and correct deficiencies before the warranty expires, prevents last-minute emergency repair demands, and builds goodwill that leads to referrals and repeat business.

47. B — Base wage: \$32.00. FICA (7.65%): \$2.45. FUTA/SUTA (2.5%): \$0.80. Workers' comp (12%): \$3.84. Subtotal percentage burden: $\$32.00 \times 0.2215 = \7.09 . Subtotal: $\$32.00 + \$7.09 = \$39.09$. Add health insurance: $\$39.09 + \$4.50 = \$43.59$ per hour.

48. C — Submitting pay applications for work not performed or materials not delivered is fraudulent overbilling. This exposes the contractor to breach of contract claims by the owner, potential criminal fraud charges, and Board disciplinary action including license suspension or revocation.

49. A — The Tennessee Business and Law Management Exam allows 2 hours and 20 minutes (140 minutes) for 50 multiple-choice questions. This provides approximately 2 minutes and 48 seconds per question. The passing score is 73% (37 correct out of 50).

50. D — Property damage to a neighbor's retaining wall caused by the contractor's excavation is a third-party property damage claim — exactly the type of claim covered by Commercial General Liability insurance. CGL covers bodily injury and property damage to third parties arising from the contractor's operations.