

PRACTICE EXAM 12: 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 organized as a corporation has total assets of \$4,200,000 and total liabilities of \$3,100,000. Current assets are \$1,150,000 and current liabilities are \$720,000. The contractor requests an unlimited license. To qualify for unlimited status, the contractor must demonstrate over \$300,000 in both net worth and working capital. Does this contractor qualify?

- A. No, because the total liabilities exceed \$3,000,000 which automatically disqualifies the contractor from unlimited status
- B. No, because the working capital of \$430,000 does not meet the \$500,000 minimum for unlimited licenses
- C. Yes, because the current ratio exceeds 1.5 which is the threshold for unlimited licensing in Tennessee
- D. Yes, because net worth (\$1,100,000) exceeds \$300,000 and working capital (\$430,000) exceeds \$300,000 — both values meet the unlimited threshold, and an audited financial statement is required

2. A contractor's project superintendent observes that the painting subcontractor is applying exterior paint at 45°F in late November. The paint manufacturer's product data sheet specifies a minimum application temperature of 50°F. The specifications require compliance with manufacturer's application instructions. The superintendent should:

- A. Allow the painting to continue because 45°F is close enough to the minimum and the difference is unlikely to cause problems
- B. Stop the exterior painting operations immediately and notify the painting subcontractor that application below the manufacturer's minimum temperature violates the specifications — document the direction in the daily report
- C. Consult with the paint manufacturer to negotiate a lower minimum temperature for this specific project
- D. Allow the painting to continue but schedule a touch-up in the spring to correct any adhesion failures

3. Under Tennessee's construction lien law, a contractor who has been fully paid for all work performed on a project has an obligation to:

- A. File a lien release with the Register of Deeds to remove any previously filed lien, and provide final lien waivers confirming full payment — failure to release a paid lien can expose the contractor to liability
- B. File a final lien within 30 days of receiving payment to memorialize the completed transaction
- C. Notify the Tennessee Board for Licensing Contractors that the project has been completed and all payments received
- D. Transfer any remaining lien rights to the project owner as part of the closeout documentation package

4. A Tennessee contractor is evaluating two project delivery methods for a proposed medical office building. The owner wants the contractor involved during design to provide cost estimating and constructability input, and wants a guaranteed price before construction begins. Which delivery method best meets these requirements?

- A. Design-Bid-Build, which provides the lowest possible price through competitive sealed bidding after complete design
- B. Design-Build, which gives the contractor full control over both design and construction from the outset
- C. Construction Manager at Risk (CMAR), which engages the contractor during design for pre-construction services and provides a Guaranteed Maximum Price before construction
- D. Multiple Prime, which allows the owner to contract directly with each trade and coordinate them independently

5. A contractor's workers' compensation policy has a base premium of \$110,000. The contractor's EMR has improved from 1.05 to 0.78 over four years due to an aggressive safety program. The annual premium savings from this EMR improvement is:

- A. \$5,500 representing the difference at the original 1.05 rate minus the base premium
- B. \$29,700 representing the difference between the premium at EMR 1.05 (\$115,500) and the premium at EMR 0.78 (\$85,800)
- C. \$110,000 because an EMR below 0.80 eliminates the workers' compensation premium entirely
- D. \$11,000 representing a flat 10% reduction applied once for crossing below the 1.00 threshold

6. A contractor enters into a contract for a \$2,600,000 commercial renovation. The contract includes a retainage clause of 5%. After 10 months, the contractor has billed \$2,200,000 in progress payments. The owner has been withholding retainage on each payment. The total retainage held by the owner at this point is:

- A. \$130,000 calculated as 5% of the full contract price regardless of billings to date
- B. \$20,000 calculated as 5% of the remaining unbilled balance (\$400,000)
- C. \$200,000 calculated as 5% of the total billings with a 2× multiplier for commercial projects
- D. \$110,000 calculated as 5% of the \$2,200,000 billed to date

7. Under OSHA regulations, a construction employer who receives a citation for a serious violation has the right to contest the citation. The notice of contest must be filed within:

- A. 15 working days from the date the employer receives the citation
- B. 30 calendar days from the date the inspection was conducted
- C. 10 business days from the date the penalty payment is due
- D. 60 calendar days from the date the citation is posted at the worksite

8. A Tennessee contractor operating as an LLC with S-Corporation tax election has net earnings of \$250,000 for the year. The owner takes a reasonable salary of \$95,000. For federal tax purposes, the self-employment tax (FICA equivalent) applies to:

- A. The full \$250,000 because the S-Corp election does not affect self-employment tax obligations
- B. Only the \$155,000 distribution because salary is exempt from all payroll taxes under the S-Corp structure
- C. Only the \$95,000 salary — the remaining \$155,000 distributed as S-Corp dividends is not subject to self-employment tax
- D. Neither the salary nor the distribution because Tennessee S-Corporations are fully exempt from federal payroll taxes

9. A contractor's project schedule shows four activities with the following total float values: Activity A = 0 days, Activity B = 5 days, Activity C = 0 days, Activity D = 12 days. A delay of 3 days occurs on Activity B. What is the impact on the project completion date?

- A. The project is delayed by 3 days because any delay to any activity affects the completion date
- B. No impact on the project completion date because the 3-day delay is within Activity B's 5 days of available float

- C. The project is delayed by 5 days because once an activity is delayed, all remaining float is consumed
- D. The project is delayed by 1 day because the delay exceeds half of the available float

10. A Tennessee contractor receives a letter from the Board informing them that a complaint has been filed against their license by a homeowner alleging defective roofing work. The contractor's most appropriate response is:

- A. Cooperate with the Board's investigation by responding to the complaint within the required timeframe, providing requested documentation, and presenting the contractor's side of the dispute — consider consulting an attorney
- B. Ignore the letter because Board complaints are advisory and do not carry enforcement authority
- C. Immediately contact the homeowner to offer a cash settlement before the Board conducts its investigation
- D. File a counter-complaint against the homeowner for filing a frivolous complaint with the Board

11. A contractor's estimator is calculating the total cost for installing 350 linear feet of 6-inch PVC storm drain pipe. The material cost is \$12.50 per linear foot, the labor rate for the pipe crew (4 workers at \$42/hour burdened rate) is \$168/hour, and the crew can install 25 linear feet per hour. The total installed cost per linear foot is:

- A. \$12.50 representing only the material cost because labor is classified as overhead
- B. \$168.00 representing only the hourly labor cost for the four-person crew
- C. \$19.22 calculated as material (\$12.50) plus labor ($\$168 \div 25 \text{ LF/hour} = \6.72 per LF)
- D. \$25.00 calculated using a standard 2× multiplier applied to the material cost

12. Under Tennessee law, a contractor who is actively licensed in North Carolina with a residential classification wants to obtain a Tennessee BC-A license. Under the reciprocity agreement between Tennessee and North Carolina, the contractor:

- A. May receive a waiver of the Tennessee residential trade exam but must still pass the Tennessee Business and Law exam, submit a financial statement, obtain required insurance, and meet all other application requirements
- B. Receives automatic Tennessee licensure by presenting their North Carolina license at any PSI testing center
- C. Is exempt from all Tennessee licensing requirements and may perform work in Tennessee under their North Carolina license

D. Must pass both the Tennessee trade exam and the Business and Law exam because reciprocity with North Carolina covers only commercial classifications

13. A contractor discovers that a concrete foundation wall has a honeycombed area (voids in the concrete caused by inadequate consolidation during placement). The structural engineer inspects the area and determines it requires repair. The cost to repair the honeycombing is:

A. Covered by the contractor's builder's risk insurance because the damage occurred during construction

B. The responsibility of the ready-mix concrete supplier because the concrete was defective

C. Shared equally between the contractor and the project owner under Tennessee's comparative fault rules

D. The contractor's responsibility because honeycombing is a workmanship defect resulting from improper placement and consolidation techniques — it is not a change order or insurance claim

14. A Tennessee contractor wants to understand the relationship between their financial statement and their bonding capacity. The contractor's CPA explains that the surety evaluates financial statements differently from the Board. The key difference is:

A. The Board uses the financial statement solely to calculate the monetary limit, while the surety uses it as one of several factors — including financial ratios, work history, management depth, and safety record — to determine bonding capacity

B. The Board and the surety use identical criteria with no differences in their evaluation methodologies

C. The surety relies exclusively on the contractor's credit score while the Board uses the financial statement

D. The Board evaluates profitability while the surety evaluates only the balance sheet

15. A construction project owner terminates the general contractor for cause, alleging abandonment at 55% completion. The owner has paid \$825,000 of the \$1,500,000 contract price. The owner hires a replacement contractor who completes the remaining work for \$820,000. The owner's total project cost (original payments plus completion costs) is \$1,645,000. What is the owner's damage claim against the original contractor?

A. \$820,000 representing the full amount paid to the replacement contractor

B. \$675,000 representing the unpaid balance of the original contract

C. \$145,000 representing the amount by which the total project cost (\$1,645,000) exceeds the original contract price (\$1,500,000)

D. \$1,500,000 representing the full original contract price as liquidated damages

16. Under OSHA's Hazard Communication standard, when a hazardous chemical is transferred from its original labeled container to a smaller secondary container for use on the jobsite, the secondary container:

- A. Must also be labeled with the chemical identity and hazard information, unless the chemical will be used immediately and entirely during the shift by the worker who transferred it
- B. Does not require labeling because the SDS on file at the jobsite provides sufficient hazard information
- C. Must be labeled only if the chemical is classified as "extremely hazardous" under OSHA's tiered system
- D. Requires a full manufacturer's label identical to the one on the original container

17. A Tennessee contractor organized as a general partnership has two partners who decide to dissolve the partnership. During dissolution, they discover that the partnership owes \$180,000 to suppliers and subcontractors, but the partnership's assets total only \$120,000. The remaining \$60,000 in debt is:

- A. Discharged automatically when the partnership dissolves because dissolved entities are relieved of debts
- B. Assumed by the Tennessee Board for Licensing Contractors as part of its consumer protection function
- C. Divided equally between the creditors who each receive proportional payments from the \$120,000 in assets
- D. The personal responsibility of both partners under joint and several liability — creditors can pursue either partner individually for the full \$60,000 deficit

18. A contractor's project has reached the point where interior MEP rough-in must be inspected by the building inspector before drywall can be installed. The contractor schedules the inspection for Tuesday, but the plumbing subcontractor informs the contractor on Monday evening that one section of the plumbing rough-in is not complete. The contractor should:

- A. Keep the inspection appointment and hope the inspector does not notice the incomplete section
- B. Cancel or reschedule the inspection until the plumbing rough-in is fully complete — a failed inspection wastes time and may result in the inspector requiring re-inspection of areas that had already been roughed in correctly
- C. Proceed with the inspection and ask the inspector to approve only the completed portions of the MEP rough-in
- D. Install drywall over the completed portions and schedule the plumbing inspection separately for the incomplete section

19. A Tennessee contractor's annual gross receipts are \$4,800,000. Of this amount, \$1,900,000 was paid to licensed subcontractors. For Tennessee business tax purposes, the contractor's taxable gross receipts are:

- A. \$4,800,000 because subcontractor deductions are not permitted for contractors with gross receipts exceeding \$4,000,000
- B. \$3,800,000 after deducting only the first \$1,000,000 in subcontractor payments
- C. \$2,900,000 after deducting the \$1,900,000 paid to licensed subcontractors
- D. \$2,400,000 after applying a 50% standard deduction to the gross receipts total

20. A contractor's balance sheet shows the following: cash \$175,000, accounts receivable \$425,000, costs in excess of billings \$65,000, equipment (net) \$580,000, accounts payable \$285,000, billings in excess of costs \$45,000, accrued expenses \$55,000, current portion of long-term debt \$35,000, and long-term loans \$375,000. What is the contractor's monetary limit?

- A. \$1,245,000 based on the total assets divided by 10
- B. \$4,500,000 based on the net worth calculation alone
- C. \$2,450,000 based on the average of net worth and working capital multiplied by 10
- D. \$2,450,000 based on the lesser of net worth (\$450,000) or working capital (\$245,000) multiplied by 10

21. A construction worker on a Tennessee project is exposed to respirable crystalline silica dust while cutting concrete blocks with a power saw. Under OSHA's silica standard for construction, the employer must:

- A. Provide the worker with a dust mask and no further action is required for cutting operations under 4 hours
- B. Implement the engineering controls specified in OSHA's Table 1 for the task being performed (such as using a saw with integrated water delivery or an effective dust collection system), provide respiratory protection if controls are insufficient, offer medical surveillance, and restrict housekeeping practices that create airborne dust
- C. Monitor the worker's silica exposure only if the cutting continues for more than 8 consecutive hours
- D. Post a warning sign in the area and allow the worker to determine whether respiratory protection is needed

22. A contractor enters into a contract that contains an arbitration clause requiring all disputes to be resolved through binding arbitration administered by the American Arbitration

Association. During the project, a dispute arises over \$175,000 in unpaid change order work. The contractor wants a jury trial. Under the arbitration clause:

- A. The contractor can choose either arbitration or litigation because the clause is merely a suggestion
- B. The contractor can bypass arbitration by filing a mechanic's lien first, which automatically converts the dispute to a court proceeding
- C. The contractor waived the right to a jury trial by agreeing to mandatory binding arbitration — the dispute must be resolved through arbitration as specified in the contract
- D. The contractor can request a jury trial if the disputed amount exceeds \$100,000

23. A Tennessee contractor organized as an LLC wants to maintain limited liability protection for its members. Which of the following actions would most likely jeopardize the LLC's limited liability protection?

- A. Commingling personal and business funds, failing to maintain the LLC as a separate entity, using LLC accounts to pay personal expenses, and undercapitalizing the business — any of which could lead a court to pierce the LLC veil
- B. Maintaining a separate business bank account and keeping personal finances separate from the LLC
- C. Filing the annual report with the Secretary of State on time each year as required
- D. Hiring a CPA to prepare the LLC's annual financial statement in accordance with GAAP

24. Under OSHA's fall protection standard, when a worker is using a personal fall arrest system, the maximum permissible free fall distance before the system activates is:

- A. 4 feet, ensuring the worker is arrested well before reaching the lower level
- B. 10 feet, which is the standard free fall distance for all personal fall arrest systems
- C. 12 feet, which allows adequate clearance for the lanyard to fully extend during the arrest
- D. 6 feet, after which the system must arrest the fall and limit the maximum arresting force on the worker to 1,800 pounds

25. A contractor's superintendent maintains daily reports throughout a 14-month commercial building project. Near the end of the project, a dispute arises over whether the owner caused a 3-week delay by failing to provide timely approvals for the curtain wall system. The contractor's most valuable evidence in supporting their delay claim is:

- A. The contractor's general recollection of events during a deposition taken 6 months after the dispute arose

- B. The contemporaneous daily reports that documented the delay as it occurred — recording the dates when approvals were requested, the dates when reminders were sent, and the dates when approvals were finally received
- C. A summary memo prepared by the contractor's attorney after reviewing the project files
- D. Testimony from the curtain wall subcontractor who can confirm that their work was delayed

26. A Tennessee contractor is performing grading work on a 3-acre commercial development site. Heavy rains are forecast for the weekend. Under the NPDES stormwater permit, the contractor's obligation before the rain event is to:

- A. Submit a written notification to TDEC informing them of the approaching weather event
- B. Temporarily halt all grading operations and wait until 48 hours after the rain before resuming
- C. Verify that all erosion and sediment controls (silt fences, sediment basins, inlet protection) are properly installed, maintained, and functioning — then conduct a post-storm inspection within 24 hours of any rainfall producing 0.5 inches or more
- D. Remove all loose soil from the site and transport it to an off-site storage facility until the rain passes

27. A contractor's project cost report at Month 5 of a 12-month project shows: Planned Value = \$450,000, Earned Value = \$480,000, Actual Cost = \$500,000. The Schedule Performance Index (SPI) and Cost Performance Index (CPI) are:

- A. SPI = 1.07 (ahead of schedule) and CPI = 0.96 (slightly over budget) — the project is progressing faster than planned but spending slightly more than the value of work earned
- B. SPI = 0.90 (behind schedule) and CPI = 1.04 (under budget)
- C. SPI = 1.11 (significantly ahead) and CPI = 1.00 (exactly on budget)
- D. SPI = 0.94 (behind schedule) and CPI = 0.90 (significantly over budget)

28. A Tennessee contractor organized as a sole proprietorship decides to incorporate as a C-Corporation. The contractor's existing license and monetary limit are based on the sole proprietor's personal financial statement. After incorporation, the contractor must:

- A. Continue using the personal financial statement until the corporation has been operating for at least two fiscal years
- B. Notify the Board within 90 days of incorporation but no changes to the license are required
- C. Transfer the existing license to the corporation through a simple name-change filing with the Board
- D. Apply for a new license in the corporation's name, submit a financial statement for the corporation, register the corporation with the Secretary of State, and meet all current licensing requirements for the new entity

29. A contractor's subcontract with an electrical subcontractor includes a provision requiring the subcontractor to name the general contractor as an additional insured on the subcontractor's CGL policy. The subcontractor provides a certificate of insurance but does not include the additional insured endorsement. The general contractor should:

- A. Accept the certificate because the certificate of insurance provides equivalent protection to additional insured status
- B. Reject the certificate and require the subcontractor to add the additional insured endorsement before beginning work — a certificate of insurance confirms coverage exists but does not extend protection to the certificate holder
- C. Accept the certificate but deduct 2% from each subcontractor payment to fund a self-insurance reserve
- D. Waive the additional insured requirement because it is a standard boilerplate provision with no practical significance

30. Under Tennessee law, the Tennessee excise tax of 6.5% on net earnings applies to which of the following business entities?

- A. Sole proprietorships and general partnerships that are registered with the Secretary of State
- B. Only C-Corporations, with S-Corporations, LLCs, and limited partnerships fully exempt
- C. Corporations, LLCs, and limited partnerships — regardless of their federal tax election (C-Corp, S-Corp, or partnership)
- D. All business entities including sole proprietorships, general partnerships, corporations, and LLCs

31. A contractor is performing a quantity takeoff for a residential project. The floor plan shows a rectangular room measuring 18 feet by 24 feet. The contractor needs to calculate the area for flooring installation. The room area is:

- A. 432 square feet, calculated as 18×24
- B. 84 linear feet, calculated as the perimeter ($18 + 24 + 18 + 24$)
- C. 216 square feet, calculated as half the product of length and width
- D. 324 square feet, calculated by multiplying the two dimensions and dividing by a conversion factor

32. A contractor's project involves installing a commercial kitchen exhaust system. The contract specifications reference compliance with the International Mechanical Code (IMC) and NFPA 96 (Standard for Ventilation Control and Fire Protection of Commercial Cooking Operations). The contractor discovers that the ductwork routing shown on the mechanical

drawings conflicts with the fire-rated wall assembly shown on the architectural drawings. The contractor should:

- A. Follow the mechanical drawings because MEP drawings always take precedence over architectural drawings
- B. Follow the architectural drawings because fire-rated assemblies are life-safety elements that cannot be modified
- C. Submit a Request for Information (RFI) to the architect and mechanical engineer to resolve the conflict before proceeding with installation
- D. Install the ductwork per the mechanical drawings and apply fire caulk around the penetration as a field modification

33. A Tennessee contractor's employee is injured when a guardrail on a scaffold collapses. Investigation reveals that the scaffold was last inspected three weeks ago, despite OSHA's requirement for inspections before each shift. The OSHA citation will most likely classify this violation as:

- A. An other-than-serious violation because guardrail failures on scaffolds are uncommon
- B. A de minimis violation that requires correction but carries no financial penalty
- C. A repeat violation because the contractor was previously cited for fall protection deficiencies
- D. A serious violation because scaffold inspection failures create a substantial probability of death or serious harm, and the employer should have known about the requirement

34. A contractor is negotiating a subcontract with a concrete subcontractor. The subcontractor requests a "pay-when-paid" provision instead of a "pay-if-paid" provision. The practical difference between these two provisions is:

- A. There is no meaningful difference — both terms describe the same contractual payment mechanism
- B. Pay-when-paid is generally treated as a timing mechanism (the GC must pay within a reasonable time after receiving the owner's payment), while pay-if-paid makes the owner's payment a condition precedent (the GC may have no obligation to pay if the owner never pays)
- C. Pay-when-paid requires the GC to pay within 10 days, while pay-if-paid allows 30 days after receipt
- D. Pay-when-paid applies only to progress payments, while pay-if-paid applies only to final payment

35. A contractor's CGL policy is written on an "occurrence" basis. The contractor completes a plumbing installation in January 2024. In March 2026, a pipe joint fails and causes \$150,000 in water damage to the building. The contractor's CGL policy was in effect during January

2024 but was cancelled in December 2024 and replaced by a different insurer. Which policy responds to this claim?

- A. The January 2024 policy responds because occurrence-based coverage covers claims arising from work performed during the policy period regardless of when the damage manifests or when the claim is filed
- B. The current policy in March 2026 responds because claims are always filed against the policy in effect at the time of discovery
- C. Neither policy responds because there was a gap between the cancellation and the new policy
- D. Both policies share the claim equally under a contribution-by-equal-shares formula

36. A Tennessee contractor wants to determine the minimum insurance coverage required for a monetary limit of \$500,000. Under Tennessee's insurance requirements:

- A. \$500,000 in general liability because the monetary limit equals the insurance requirement at this level
- B. \$250,000 in general liability as the standard requirement for monetary limits under \$1,000,000
- C. \$100,000 in general liability because the \$500,000 monetary limit falls within the "up to \$500,000" tier
- D. \$50,000 in general liability which is the minimum requirement for all Tennessee contractors

37. A project owner on a private commercial project wants to ensure that the general contractor pays all subcontractors and suppliers. The most effective single tool for the owner to require is:

- A. A retainage clause withholding 10% of each progress payment until final completion
- B. A mutual waiver of consequential damages that protects all parties from indirect financial losses
- C. A provision requiring the general contractor to submit copies of all subcontractor pay applications monthly
- D. A payment bond guaranteeing that the general contractor will pay all subcontractors, suppliers, and laborers who furnish work, materials, or services on the project

38. A contractor's estimator is reviewing a set of construction drawings and encounters a dimension on the architectural floor plan that reads 24'-6". This dimension in decimal feet is:

- A. 24.06 feet, converting inches to hundredths by moving the decimal point
- B. 24.50 feet, converting 6 inches to 0.50 feet ($6 \div 12 = 0.50$)
- C. 24.60 feet, converting 6 inches by dividing by 10 rather than 12

D. 25.00 feet, rounding up to the nearest whole foot for estimating purposes

39. A Tennessee contractor performing renovation work on a historic building must comply with both building codes and historic preservation requirements. The contractor discovers that the historic preservation commission requires the use of restoration-grade materials that cost 40% more than standard materials. The contract documents do not address historic preservation requirements. The contractor should:

- A. Notify the owner and architect of the historic preservation requirements, document the additional material costs, and submit a change order for the cost difference — the contractor is not obligated to absorb costs for requirements not addressed in the contract documents
- B. Use the restoration-grade materials at the contractor's own expense because code compliance is always the contractor's responsibility
- C. Substitute standard materials and rely on the historic preservation commission to approve them during final inspection
- D. Contact the Tennessee Board for Licensing Contractors to request a waiver of the historic preservation requirements

40. A Tennessee contractor's project has the following cost structure: direct labor \$380,000, materials \$290,000, equipment \$65,000, subcontractors \$245,000. Project overhead is \$72,000. Company overhead is 11% of direct costs. Profit is 9% of total cost. What is the total bid price?

- A. \$980,000 calculated as direct costs only without overhead or profit
- B. \$1,052,000 calculated with company overhead but without profit
- C. \$1,130,500 calculated with both overhead amounts but without profit
- D. \$1,254,089 calculated as direct costs (\$980,000) + project overhead (\$72,000) + company overhead (\$107,800) + profit (9% of \$1,159,800 = \$104,382) — wait, let me recalculate: $\$980,000 + \$72,000 + \$107,800 = \$1,159,800 \times 1.09 = \$1,264,182$

41. A Tennessee contractor receives a notice from the Tennessee Department of Revenue stating that the contractor has failed to file business tax returns for three consecutive quarters. The potential consequences include:

- A. A warning letter with no financial penalties for the first occurrence of late filing
- B. Automatic suspension of the contractor's license by the Board for Licensing Contractors
- C. Referral to the Tennessee Attorney General's office for criminal prosecution
- D. Assessment of penalties and interest on the unpaid tax amounts, potential liens against the contractor's business assets, and possible enforcement action by the Department of Revenue

42. A contractor's project manager discovers that a window installation subcontractor has been installing windows without following the manufacturer's approved flashing and waterproofing details. The project manager reviews the submittal log and finds that the window submittals were approved with the manufacturer's standard installation instructions attached. The project manager should:

- A. Accept the installed windows because they passed the building inspection and appear watertight
- B. Direct the window subcontractor to remove and reinstall all non-conforming windows in accordance with the manufacturer's approved installation details — the general contractor is responsible to the owner for ensuring all work conforms to the approved submittals
- C. Issue a change order reducing the window subcontractor's payment by 10% to offset the risk of future water infiltration
- D. Notify the window manufacturer that their product is being installed incorrectly and request that the manufacturer send a representative to approve the field modifications

43. Under Tennessee's mechanic's lien law, if a contractor files a lien on May 1 and the one-year enforcement deadline passes on May 1 of the following year without a lawsuit being filed, the lien:

- A. Remains enforceable for an additional 90 days as a grace period under Tennessee's extended filing provision
- B. Can be renewed by filing an extension with the Register of Deeds and paying a renewal fee
- C. Expires automatically by operation of law and becomes unenforceable — the contractor loses their secured claim against the property regardless of how much money is owed
- D. Converts to an unsecured judgment that the contractor can pursue through small claims court

44. A contractor's employee works 44 hours during a workweek at a regular rate of \$28.00 per hour. The contractor also pays the employee a \$200 weekly safety bonus for maintaining a clean safety record. Under the FLSA, the overtime calculation must:

- A. Include the safety bonus in the regular rate calculation — the regular rate is recalculated as $(\$28 \times 44 + \$200) \div 44 = \$32.55/\text{hour}$, and overtime premium is half of this rate (\$16.27) multiplied by 4 overtime hours
- B. Exclude the safety bonus because bonuses are never included in the regular rate under any circumstances
- C. Apply the overtime premium only to the base \$28.00 rate with the bonus paid separately
- D. Double the safety bonus for weeks when overtime is worked as an additional incentive

45. A Tennessee contractor who has been making quarterly estimated tax payments discovers at year-end that the total payments were \$15,000 short of the actual tax liability. The consequence of this underpayment is:

- A. No consequence as long as the shortfall is paid with the annual tax return filing
- B. An underpayment penalty and interest from the IRS calculated from each quarterly due date when the payment was deficient
- C. A flat \$1,000 penalty regardless of the underpayment amount
- D. An underpayment penalty calculated on the \$15,000 shortfall from the due date of each quarterly installment that was deficient, plus interest — the penalty is essentially interest charged on the late amount

46. A contractor's project involves the installation of a fire sprinkler system in a new commercial building. The fire protection subcontractor completes the installation, and the system passes the fire marshal's inspection. Six months after occupancy, a sprinkler head fails during routine testing, causing water damage to the tenant's merchandise. Under the contractor's one-year warranty:

- A. The contractor has no obligation because the fire marshal's inspection approved the system
- B. The contractor must investigate and repair the defective sprinkler head at no cost to the owner — the failure occurred within the warranty period and represents a defect in workmanship or materials
- C. The tenant must file a claim against the fire protection subcontractor directly because the contractor's warranty does not cover subcontracted work
- D. The warranty covers only the sprinkler piping, not the sprinkler heads, which are covered by the manufacturer's warranty

47. A Tennessee contractor organized as an LLC fails to file the annual report with the Secretary of State for two consecutive years. The Secretary of State administratively dissolves the LLC. The impact on the contractor's license is:

- A. The license becomes invalid because the entity holding the license no longer exists as a legal entity — the contractor must reinstate the LLC with the Secretary of State and then update the license with the Board before performing any licensed work
- B. The license automatically transfers to the LLC's managing member as an individual license
- C. No impact because the Board and the Secretary of State maintain separate databases with no cross-reference
- D. The license is suspended for 30 days and then automatically reinstated once the annual report filing fee is paid

48. A contractor's project superintendent discovers that a trench excavated by the utility subcontractor is 6 feet deep with vertical walls and no protective system installed. The soil is classified as Type B (medium-stability soil that can develop into sloughing or raveling conditions). Under OSHA's excavation standard, the required protective system for this excavation in Type B soil is:

- A. No protection is required because Type B soil is inherently stable enough for trenches up to 8 feet deep
- B. A sloping system with maximum slope of 1:1 (45 degrees), benching, shoring, or a trench shield — vertical walls are not permitted in Type B soil at any depth
- C. Sloping at 1.5H:1V (34 degrees), benching, shoring, or a trench box — Type B soil requires less aggressive slopes than Type C but still requires protection at 5 feet or more
- D. Only a competent person's verbal approval is required for excavations under 10 feet in Type B soil

49. A contractor's project has been delayed by 30 calendar days due to unusually severe weather that qualifies as a force majeure event under the contract. The contract has a liquidated damages clause of \$3,000 per calendar day. The contractor properly documented the weather delays with written notice at the time they occurred. The contractor's entitlement under the force majeure clause is:

- A. A time extension of 30 days only — the liquidated damages assessment is suspended for the force majeure period, but the contractor does not receive additional monetary compensation for delay costs
- B. The original completion date stands and the contractor must accelerate work at their own expense to recover the lost time
- C. A time extension plus full reimbursement for idle equipment and labor during all 30 weather delay days
- D. A 30-day time extension plus \$90,000 in liquidated damages paid by the owner to the contractor for the inconvenience

50. A Tennessee contractor wants to verify the current status of their license — including classification, monetary limit, and Qualifying Agent information. The contractor should contact:

- A. PSI Services LLC, which maintains all license records for Tennessee contractors
- B. The Tennessee Board for Licensing Contractors, which is the official custodian of all contractor license records including status, classifications, monetary limits, and QA designations
- C. The Tennessee Secretary of State, who maintains the master database of all professional licenses in the state

D. The contractor's insurance agent, who receives automatic notification of all license status changes

Practice Exam 12: Answer Key and Explanations

1. D — Net worth = $\$4,200,000 - \$3,100,000 = \$1,100,000$. Working capital = $\$1,150,000 - \$720,000 = \$430,000$. Both values exceed the $\$300,000$ threshold required for unlimited status. An audited financial statement is required for unlimited licenses (which inherently exceed $\$3,000,000$).

2. B — Applying paint below the manufacturer's minimum temperature violates the specifications, which require compliance with manufacturer application instructions. The superintendent should stop the work, document the direction, and notify the subcontractor. Paint applied below the minimum temperature may experience adhesion failure, peeling, and premature degradation.

3. A — When a contractor has been fully paid and a lien was previously filed, the contractor must file a lien release with the Register of Deeds to remove the lien from the property records. Failure to release a satisfied lien can expose the contractor to liability for the owner's damages and legal costs.

4. C — CMAR engages the contractor during the design phase for pre-construction services (cost estimating, constructability review, value engineering) and provides a Guaranteed Maximum Price before construction begins. This gives the owner both early contractor input and cost certainty.

5. B — Premium at EMR 1.05 = $\$110,000 \times 1.05 = \$115,500$. Premium at EMR 0.78 = $\$110,000 \times 0.78 = \$85,800$. Annual savings = $\$115,500 - \$85,800 = \$29,700$. This demonstrates the substantial financial return on investment in comprehensive safety programs.

6. D — Retainage is 5% of each progress payment. Total retainage = $5\% \times \$2,200,000 = \$110,000$. Retainage is calculated on amounts billed to date, not on the full contract price or the remaining balance.

7. A — An employer who disagrees with an OSHA citation must file a notice of contest within 15 working days of receiving the citation. If no contest is filed within this period, the citation becomes a final order not subject to review. The 15-working-day deadline is strict and non-extendable.

8. C — In an S-Corporation, the owner's salary ($\$95,000$) is subject to FICA taxes (employer and employee shares), but the remaining $\$155,000$ distributed as S-Corp dividends passes through to the shareholder's personal return without self-employment tax. This is the primary tax advantage of the S-Corp structure.

9. B — Activity B has 5 days of total float. A 3-day delay consumes 3 of those 5 days, leaving 2 days of remaining float. Because the delay (3 days) does not exceed the available float (5 days), the project completion date is not affected. Only delays exceeding available float impact the project end date.

10. A — When the Board notifies a contractor of a complaint, the contractor should cooperate with the investigation — respond within the required timeframe, provide requested documentation, and present their perspective. Consulting an attorney is advisable for significant complaints. Ignoring the complaint is the worst possible response.

11. C — Material cost = \$12.50/LF. Labor cost = crew rate (\$168/hour) ÷ production rate (25 LF/hour) = \$6.72/LF. Total installed unit cost = \$12.50 + \$6.72 = \$19.22 per linear foot. Total cost = \$19.22 × 350 LF = \$6,727.

12. A — Tennessee's reciprocity agreement with North Carolina provides a trade exam waiver for qualifying classifications. The contractor may waive the BC-A trade exam but must still pass the Tennessee Business and Law exam, submit a financial statement, obtain required insurance, and complete all other application requirements.

13. D — Honeycombing is a workmanship defect caused by improper concrete placement and consolidation techniques — inadequate vibration, improper pour rates, or formwork issues. The cost to repair is the contractor's responsibility and cannot be billed to the owner as a change order or claimed against insurance.

14. B — The Board uses the financial statement solely for the monetary limit calculation (10× the lesser of net worth or working capital). The surety evaluates the financial statement as one of several factors including financial ratios, liquidity, profitability, work completion history, management depth, EMR, and character.

15. C — Original contract = \$1,500,000. Owner paid original contractor \$825,000. Unpaid balance = \$675,000. Replacement contractor cost = \$820,000. Total project cost = \$825,000 + \$820,000 = \$1,645,000. Damages = total cost – original contract price = \$1,645,000 – \$1,500,000 = \$145,000.

16. A — OSHA's HazCom standard requires secondary containers to be labeled with the chemical identity and hazard information. The only exception is when the chemical will be used immediately and entirely during the work shift by the employee who transferred it — in that case, labeling is not required.

17. D — In a general partnership, all partners have unlimited personal liability for partnership debts. When the partnership's assets (\$120,000) are insufficient to cover its debts (\$180,000), creditors can pursue any partner personally for the \$60,000 deficit. Joint and several liability means each partner is potentially liable for the full amount.

18. B — Scheduling an inspection when the work is not complete wastes the inspector's time and the contractor's time. A failed inspection requires re-inspection, which may delay the

project further. The contractor should cancel or reschedule until all rough-in work is fully complete and ready for inspection.

19. C — Tennessee's business tax allows deduction of amounts paid to licensed subcontractors. Taxable receipts = $\$4,800,000 - \$1,900,000 = \$2,900,000$. There is no cap on the subcontractor deduction based on gross receipt levels — the full amount paid to licensed subcontractors is deductible.

20. D — Current assets = $\$175,000 + \$425,000 + \$65,000 = \$665,000$. Total assets = $\$665,000 + \$580,000 = \$1,245,000$. Current liabilities = $\$285,000 + \$45,000 + \$55,000 + \$35,000 = \$420,000$. Total liabilities = $\$420,000 + \$375,000 = \$795,000$. Net worth = $\$1,245,000 - \$795,000 = \$450,000$. Working capital = $\$665,000 - \$420,000 = \$245,000$. Lesser = $\$245,000$. Monetary limit = $10 \times \$245,000 = \$2,450,000$.

21. B — OSHA's silica standard for construction (Table 1) specifies engineering controls for common tasks that generate silica dust. For cutting concrete with a power saw, the table prescribes integrated water delivery to suppress dust or vacuum dust collection. Respiratory protection, medical surveillance, and restricted housekeeping practices are also required.

22. C — A mandatory binding arbitration clause constitutes a waiver of the right to a jury trial. The contractor agreed to resolve all disputes through arbitration by signing the contract. The arbitrator's decision is final and binding, with very limited grounds for court review.

23. A — The actions most likely to jeopardize LLC protection are commingling personal and business funds, failing to maintain the LLC as a separate entity, using LLC accounts for personal expenses, and undercapitalizing the business. These are the classic grounds for piercing the LLC veil.

24. D — OSHA's fall protection standard limits the maximum free fall distance for personal fall arrest systems to 6 feet. After the 6-foot free fall, the system must arrest the fall and limit the maximum arresting force on the worker to 1,800 pounds. The total deceleration distance must not exceed 3.5 feet.

25. B — Contemporaneous daily reports created at the time events occurred are the most powerful evidence in construction delay disputes. They provide a real-time record of what happened, when it happened, and who was responsible — far more credible than recollections, summaries, or testimony prepared months or years later.

26. C — Before an anticipated rain event, the contractor should verify that all BMPs are properly installed and functioning. After the event, an inspection must be conducted within 24 hours of any rainfall producing 0.5 inches or more to identify failures and implement corrective actions.

27. A — $SPI = EV \div PV = \$480,000 \div \$450,000 = 1.07$ (ahead of schedule — more work completed than planned). $CPI = EV \div AC = \$480,000 \div \$500,000 = 0.96$ (slightly over budget)

— spending more than the value of work earned). The project is progressing well on schedule but spending slightly more than earned.

28. D — Converting from a sole proprietorship to a corporation requires a new license in the corporation's name. The contractor must register the corporation with the Secretary of State, apply for a new license, submit a corporate financial statement, and meet all current requirements. The sole proprietorship license cannot simply be transferred.

29. B — A certificate of insurance only confirms that coverage exists — it does not extend protection to the certificate holder. Additional insured status is a separate endorsement that actually extends the subcontractor's CGL coverage to protect the general contractor. The GC should reject the certificate and require the endorsement.

30. C — Tennessee's excise tax at 6.5% on net earnings applies to corporations, LLCs, and limited partnerships regardless of their federal tax election. S-Corporations and LLCs electing partnership taxation are not exempt from the excise tax at the entity level. Sole proprietorships and general partnerships are generally exempt.

31. A — The area of a rectangular room = length \times width = $18 \times 24 = 432$ square feet. This is a fundamental quantity takeoff calculation for flooring, painting, drywall, and any other work measured in square feet.

32. C — When drawings from different disciplines conflict (mechanical ductwork routing versus fire-rated wall assembly), the contractor should submit an RFI to the architect and mechanical engineer requesting resolution. The contractor should not unilaterally choose which drawing to follow or make field modifications to fire-rated assemblies.

33. D — Failure to inspect scaffolds before each shift as required by OSHA creates a substantial probability of death or serious harm — making this a serious violation. The three-week gap between inspections is a clear failure to comply with the standard, and the employer should have known about the daily inspection requirement.

34. B — Pay-when-paid is generally treated as a timing mechanism — the GC will pay the sub within a reasonable time after receiving the owner's payment. Pay-if-paid makes the owner's payment a condition precedent, meaning if the owner never pays, the GC may have no legal obligation to pay the subcontractor.

35. A — An occurrence-based CGL policy covers claims arising from work performed during the policy period, regardless of when the damage occurs or the claim is filed. The plumbing was installed in January 2024 while the policy was in effect. That policy responds to the March 2026 claim.

36. C — Tennessee's insurance requirement for monetary limits "up to \$500,000" is \$100,000 in general liability. A \$500,000 monetary limit falls within this first tier. The \$500,000 coverage requirement applies to monetary limits from \$501,000 to \$1,500,000.

37. D — A payment bond is the most effective tool for ensuring subcontractor and supplier payment. The bond guarantees that the GC will pay all parties who furnish work or materials. Unpaid parties can make claims directly against the bond. Retainage helps but does not guarantee downstream payment.

38. B — 24'-6" means 24 feet and 6 inches. Converting 6 inches to decimal feet: $6 \div 12 = 0.50$ feet. Therefore, 24'-6" = 24.50 feet. This conversion is essential for accurate estimating calculations.

39. A — Requirements not addressed in the contract documents constitute potential additional scope. The contractor should notify the owner and architect of the historic preservation material requirements, document the cost difference, and submit a change order. The contractor is not obligated to absorb costs for requirements not included in the contract.

40. D — Direct costs = $\$380,000 + \$290,000 + \$65,000 + \$245,000 = \$980,000$. Project overhead = $\$72,000$. Company overhead = $11\% \times \$980,000 = \$107,800$. Total cost = $\$980,000 + \$72,000 + \$107,800 = \$1,159,800$. Profit = $9\% \times \$1,159,800 = \$104,382$. Total bid = $\$1,159,800 + \$104,382 = \$1,264,182$.

41. D — Failure to file business tax returns results in penalties and interest assessed by the Tennessee Department of Revenue. Continued noncompliance can lead to liens against business assets and enforcement action. While it does not trigger automatic license suspension, the financial consequences compound rapidly.

42. B — When a subcontractor deviates from approved submittals and manufacturer installation details, the general contractor must require correction. The GC is responsible to the owner for ensuring all work conforms to the contract documents. Windows installed without proper flashing will likely leak, creating far greater liability than the cost of reinstallation.

43. C — The one-year enforcement deadline is absolute. If no lawsuit is filed within one year of the lien filing date, the lien expires automatically by operation of law. There are no grace periods, extensions, or renewal provisions. The contractor loses their secured claim against the property permanently.

44. A — Under the FLSA, non-discretionary bonuses (including safety bonuses paid regularly based on meeting defined criteria) must be included in the regular rate calculation for overtime purposes. The regular rate is recalculated to include the bonus, and the overtime premium (half-time) is applied to the recalculated rate for overtime hours.

45. D — Underpayment of quarterly estimated taxes results in an underpayment penalty calculated from each quarterly due date when the installment was deficient. The penalty is essentially interest charged on the shortfall amount for the period it was late. Both the IRS and Tennessee assess underpayment penalties.

46. B — The contractor's one-year warranty covers defects in materials and workmanship for one year from substantial completion. A sprinkler head failure at 6 months falls within the

warranty period. The contractor must investigate and repair the defect at no cost to the owner, then pursue the subcontractor for reimbursement.

47. A — If the Secretary of State dissolves the LLC, the entity ceases to exist as a legal entity. Since the license was issued to the LLC, the license becomes invalid. The contractor must reinstate the LLC with the Secretary of State and then update the license with the Board before performing any licensed work.

48. C — Type B soil in excavations 5 feet or more deep requires a protective system. For Type B soil, OSHA permits sloping at 1H:1V (45 degrees), benching (in specific configurations), shoring, or trench shields. Vertical walls are not permitted in Type B soil at depths of 5 feet or more — vertical cuts are allowed only in Type A soil.

49. A — Force majeure clauses typically provide a time extension for the period of the qualifying delay but do not provide additional monetary compensation. The 30-day time extension eliminates the liquidated damages for those 30 days (since the completion date is extended), but the contractor generally does not receive reimbursement for delay-related costs.

50. B — The Tennessee Board for Licensing Contractors maintains the official records of all contractor licenses, including current status, classifications, monetary limits, QA designations, and disciplinary history. The Board can be reached at 800-544-7693 or 615-741-8307 or through their website.