

PRACTICE EXAM 13: 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 sole proprietorship earns \$165,000 in net business income for the year. The contractor pays federal income tax on this amount. In addition, the contractor owes self-employment tax. The self-employment tax covers:

- A. Only the Medicare portion (2.9%) because sole proprietors are exempt from the Social Security component
- B. Both the employer and employee portions of Social Security and Medicare — approximately 15.3% of net self-employment earnings
- C. Only the employee portion of FICA (7.65%) because the employer portion is covered by general business overhead
- D. A flat \$12,000 annual self-employment tax assessed on all sole proprietors regardless of income level

2. A contractor's project superintendent discovers that the structural steel fabricator delivered beams with the wrong connection details — the beams were fabricated according to the fabricator's standard details rather than the approved shop drawings. The superintendent should:

- A. Accept the beams and have the field crew modify the connections during erection to match the approved drawings
- B. Install the beams as delivered and submit an RFI asking the structural engineer to approve the fabricator's standard details retroactively
- C. Reject the delivery and notify the structural steel subcontractor that the beams must be re-fabricated to match the approved shop drawings before they can be installed
- D. Accept the beams for the interior structure but reject those designated for the building perimeter

3. A Tennessee contractor wants to bid on a project in Alabama. The contractor holds a valid Tennessee BC (Building Contractor) license with a clean record and no disciplinary actions. Under Tennessee's reciprocity agreement with Alabama:

- A. The Tennessee license automatically authorizes the contractor to perform work in Alabama without any additional licensing
- B. The contractor can transfer their Tennessee license to Alabama through a simple online registration process
- C. The contractor must apply for an Alabama license independently — reciprocity applies only in the reverse direction (Alabama to Tennessee)
- D. The reciprocity agreement may allow the contractor to receive a trade exam waiver from Alabama, but the contractor must apply for an Alabama license, pass Alabama's business and law exam, and meet all other Alabama licensing requirements

4. A construction project's contract includes a provision requiring the contractor to maintain "all-risk" builder's risk insurance. Under an all-risk policy, which of the following losses would typically be EXCLUDED from coverage?

- A. Fire damage that destroys the partially completed structure during an overnight blaze
- B. Damage caused by the contractor's own faulty workmanship — such as a concrete foundation that must be demolished and replaced due to incorrect mix design
- C. Theft of copper wire and plumbing fixtures from the construction site during a weekend
- D. Wind damage from a severe thunderstorm that collapses temporary bracing and damages the structural frame

5. A contractor organized as a multi-member LLC wants to understand Tennessee's franchise tax. The franchise tax is calculated on the greater of the entity's net worth or the book value of real and tangible personal property owned or used in Tennessee, at a rate of:

- A. 1.0% of the taxable base with a minimum tax of \$500
- B. 0.50% of the taxable base with no minimum tax required
- C. \$1.00 per \$100 of the taxable base with a minimum tax of \$250
- D. \$0.25 per \$100 of the taxable base with a minimum tax of \$100

6. A contractor's project manager reviews the monthly cost report and notices that the drywall cost code shows: budget \$92,000, actual costs to date \$78,000, committed costs \$6,000, and estimated cost to complete \$12,000. The estimated cost at completion is \$96,000 versus the \$92,000 budget. The project manager's most appropriate action is:

- A. Increase the drywall budget to \$96,000 to eliminate the variance and make the report show zero variance
- B. Wait until the drywall work is complete to determine whether the \$4,000 overrun actually materializes
- C. File a change order with the owner for the \$4,000 difference regardless of whether the overage is related to a scope change
- D. No action is needed because a \$4,000 variance on a \$92,000 line item is within normal acceptable tolerance

7. Under Tennessee's construction lien law, a prime contractor who has a direct contract with the property owner is generally:

- A. Required to serve a Notice of Nonpayment on the owner within 60 days before filing a lien
- B. Required to serve a preliminary notice within 20 days of first furnishing labor or materials
- C. Not required to serve a Notice of Nonpayment before filing a lien because the owner already knows who the prime contractor is and what amounts are owed
- D. Prohibited from filing a mechanic's lien under any circumstances because the prime contractor's remedy is limited to breach of contract claims

8. A Tennessee contractor's balance sheet shows: cash \$210,000, accounts receivable \$480,000, costs in excess of billings \$75,000, prepaid expenses \$25,000, equipment (net) \$650,000, accounts payable \$310,000, billings in excess of costs \$55,000, accrued wages \$48,000, current portion of long-term debt \$37,000, and long-term loans \$440,000. What is the contractor's working capital?

- A. \$550,000, calculated as net worth minus long-term liabilities
- B. \$340,000, calculated as current assets (\$790,000) minus current liabilities (\$450,000)
- C. \$790,000, which equals the total current assets before deducting any liabilities
- D. \$1,440,000, which equals the total of all assets on the balance sheet

9. A contractor enters into a lump sum contract for \$1,850,000. During construction, the contractor discovers that the soil conditions require a more extensive dewatering system than anticipated. The additional dewatering will cost \$65,000. The geotechnical report provided with the bid documents did not indicate a high water table. Under a standard differing site conditions clause (Type I), the contractor:

- A. Has no basis for a claim because lump sum contracts place all risk on the contractor regardless of site conditions
- B. Should file a mechanic's lien for the \$65,000 before performing the dewatering work

- C. Must absorb the cost because dewatering is always considered a standard construction risk under Tennessee law
- D. Should promptly notify the owner in writing, document the actual conditions versus the geotechnical report, and submit a change order request for the additional \$65,000 and any associated time impact

10. A Tennessee contractor organized as a corporation wants to expand by bringing in a new investor who will contribute \$500,000 in capital but does not want to participate in management decisions. Which business structure best accommodates a passive investor with limited liability?

- A. A corporation where the investor purchases shares of stock as a passive shareholder with limited liability — the investor's risk is limited to their \$500,000 investment and they have no obligation to participate in management
- B. A general partnership where the investor is designated as a "silent partner" with contractual protections
- C. A sole proprietorship with the investor serving as a secured creditor rather than an owner
- D. A joint venture specifically formed for each project the investor chooses to fund

11. Under OSHA, a construction employer must provide training to employees before they begin work on any task involving exposure to hazardous chemicals. This training requirement falls under which OSHA standard?

- A. The Scaffolding standard (Subpart L), which covers chemical exposure during elevated work
- B. The Fall Protection standard (Subpart M), which addresses chemical hazards in conjunction with fall risks
- C. The Excavation standard (Subpart P), which requires chemical testing of soil before trenching
- D. The Hazard Communication standard (HazCom), which requires employers to train workers on the specific chemical hazards they may encounter and the protective measures required

12. A contractor's project reaches substantial completion on August 15. The architect issues the certificate of substantial completion and the punch list on August 15. The contractor completes all 28 punch list items by September 10. The architect verifies all items are complete on September 15 and issues the certificate of final completion. The one-year warranty period expires on:

- A. September 15 of the following year, one year from the date of final completion
- B. September 10 of the following year, one year from the date the punch list was completed

- C. August 15 of the following year, one year from the date of substantial completion
- D. December 31 of the following year, at the end of the calendar year in which substantial completion occurred

13. A Tennessee contractor's project involves the construction of a parking garage with post-tensioned concrete slabs. The post-tensioning subcontractor's work must be inspected by a special inspector in addition to the regular building inspector. The requirement for special inspections is established by:

- A. The building code (IBC), which requires special inspections for certain structural systems including post-tensioned concrete, high-strength concrete, structural steel connections, and other critical elements
- B. The Tennessee Board for Licensing Contractors, which designates specialty trades requiring additional oversight
- C. OSHA, which mandates special inspections for all concrete work exceeding 10,000 PSI
- D. The contractor's insurance company, which requires special inspections to maintain builder's risk coverage

14. A contractor enters into a cost-plus-fixed-fee contract with a fixed fee of \$120,000. During construction, the owner requests significant scope reductions that decrease the actual project costs from the estimated \$900,000 to \$650,000. The contractor's fee under this contract is:

- A. \$86,667, reduced proportionally based on the ratio of actual costs to estimated costs ($\$650,000 \div \$900,000 \times \$120,000$)
- B. \$65,000, reduced to 10% of actual costs because the fixed fee was based on a percentage of the original estimate
- C. \$97,500, calculated as the original fee minus a 25% reduction matching the scope reduction percentage
- D. \$120,000 — the fixed fee does not change regardless of whether actual costs increase or decrease

15. A Tennessee contractor operating as an LLC discovers that their registered agent has moved out of state without notifying anyone. The LLC's registered agent address on file with the Secretary of State is no longer valid. The contractor's immediate obligation is:

- A. Update the registered agent information with the Secretary of State immediately — failure to maintain a valid registered agent can result in administrative dissolution of the LLC, which would invalidate the contractor's license
- B. Wait until the next annual report filing to update the registered agent information

- C. Appoint the contractor's CPA as the temporary registered agent until a permanent replacement is found
- D. No action is required because the registered agent designation is optional for LLCs in Tennessee

16. A contractor's estimate for a school renovation includes an allowance of \$60,000 for technology infrastructure (data cabling, wireless access points, and AV equipment). During construction, the school district selects specific equipment totaling \$78,000. The appropriate contract mechanism for handling this difference is:

- A. The contractor absorbs the \$18,000 difference because allowance items are the contractor's risk
- B. A deductive change order reducing the contract price if the actual cost is less than the allowance, or an additive change order increasing the contract price by the \$18,000 difference if the actual cost exceeds the allowance
- C. A separate purchase order issued directly from the school district to the technology vendor, bypassing the contractor entirely
- D. The contractor marks up the \$18,000 difference by 50% to cover administrative costs of processing the overage

17. Under OSHA's excavation standard, the competent person must classify the soil type before workers enter the excavation. The three soil classifications from most stable to least stable are:

- A. Type C (most stable), Type B (moderate), and Type A (least stable)
- B. Sandy (most stable), Clay (moderate), and Rock (least stable)
- C. Grade I (most stable), Grade II (moderate), and Grade III (least stable)
- D. Type A (most stable), Type B (moderate stability), and Type C (least stable)

18. A Tennessee contractor's financial statement shows total assets of \$1,650,000 and total liabilities of \$1,100,000. Current assets are \$495,000 and current liabilities are \$330,000. The contractor wants to know whether a reviewed or audited financial statement is needed. The answer is:

- A. A reviewed financial statement is sufficient because the monetary limit of \$1,650,000 does not exceed \$3,000,000
- B. An audited financial statement is required because net worth exceeds \$500,000
- C. A compiled financial statement is the only requirement for monetary limits under \$2,000,000
- D. An audited statement is required because total assets exceed \$1,500,000

19. A general contractor on a \$5,200,000 hospital expansion project issues 14 subcontracts to specialty trade contractors. The general contractor is responsible for coordinating all subcontractor work. When a scheduling conflict arises between the electrical subcontractor and the fire protection subcontractor, the general contractor should:

- A. Allow the two subcontractors to resolve the conflict independently without GC involvement
- B. Hold a coordination meeting with both subcontractors, review the project schedule, determine the proper work sequence, issue a revised look-ahead schedule, and document the resolution — the GC bears responsibility for overall project coordination
- C. Terminate both subcontracts and rebid the electrical and fire protection scopes of work
- D. Submit an RFI to the architect asking for direction on how to sequence the subcontractor work

20. A Tennessee contractor wants to determine the combined sales tax rate for a project located in Davidson County (Nashville). The state sales tax rate is 7%. The local rate in Davidson County is 2.25%. The combined rate the contractor must pay on construction materials purchased for this project is:

- A. 7.00% because local taxes do not apply to construction materials under Tennessee law
- B. No sales tax is owed because Nashville has a construction material exemption for licensed contractors
- C. 4.00% because the reduced grocery rate applies to all bulk purchases exceeding \$10,000
- D. 9.25%, which is the combined state (7%) plus local (2.25%) rate applicable to construction materials

21. A contractor's project has earned value data at Month 4: Planned Value = \$320,000, Earned Value = \$350,000, Actual Cost = \$370,000. The Schedule Variance (SV) and Cost Variance (CV) are:

- A. $SV = +\$30,000$ (ahead of schedule) and $CV = +\$50,000$ (under budget) — the project is performing well on both metrics
- B. $SV = -\$30,000$ (behind schedule) and $CV = -\$50,000$ (over budget) — both metrics show poor performance
- C. $SV = -\$50,000$ (behind schedule) and $CV = +\$20,000$ (under budget) — the project is behind on work but efficient on spending
- D. No calculations are needed because the project is performing well based on the raw numbers alone

22. A Tennessee contractor organized as an LLC receives a contract from a project owner that includes an indemnification clause requiring the contractor to indemnify the owner for "all

losses arising from the work, including losses caused by the owner's sole negligence." This is a broad form indemnity clause. The contractor should:

- A. Negotiate the clause to an intermediate form that excludes losses caused solely by the owner's negligence — broad form indemnity is extremely one-sided and may be restricted under Tennessee law
- B. Accept the clause because all indemnification provisions are standard and non-negotiable in construction contracts
- C. Refuse to sign the contract under any circumstances because indemnification clauses are prohibited in Tennessee
- D. Accept the clause but purchase additional umbrella insurance to cover the expanded indemnification obligation

23. A contractor's project involves demolishing an existing 1970s warehouse and constructing a new retail building on the same site. During demolition, the contractor encounters underground fuel tanks that were not shown on any of the documents provided during bidding. The tanks appear to be leaking, and petroleum-contaminated soil surrounds them. The contractor's immediate obligation is to:

- A. Remove the tanks and contaminated soil immediately and dispose of everything at the nearest C&D landfill to keep the project on schedule
- B. Continue demolition around the tanks and address the contamination during the site grading phase
- C. Notify the owner's insurance company and proceed with construction after receiving verbal authorization
- D. Stop work in the contaminated area, secure the site, notify the property owner, and report the discovery to TDEC — underground storage tanks with contamination require environmental assessment and remediation under TDEC oversight

24. A contractor's employee works Monday through Friday averaging 45 hours per workweek. The employee's regular rate is \$26.00 per hour. During a particular week, the employee works an additional 6 hours on Saturday, bringing the total workweek to 51 hours. The employee's gross pay for this workweek is:

- A. \$1,326.00 calculated as 51 hours at the straight-time rate of \$26.00
- B. \$1,469.00 calculated as 40 regular hours at \$26.00 (\$1,040.00) plus 11 overtime hours at \$39.00 (\$429.00)
- C. \$1,248.00 calculated as 48 hours at \$26.00 with Saturday hours excluded from the overtime calculation
- D. \$1,560.00 calculated as 51 hours at a premium Saturday rate of \$30.59 per hour

25. Under Tennessee's contractor licensing law, the Board has the authority to take disciplinary action against a licensed contractor. Which of the following actions falls within the Board's disciplinary authority?

- A. Issuing criminal arrest warrants for contractors who violate licensing regulations
- B. Ordering the contractor to pay the owner triple damages as a punitive measure
- C. Suspending or revoking the contractor's license, imposing fines, requiring corrective action, and issuing cease-and-desist orders
- D. Terminating all existing contracts between the contractor and their clients effective immediately

26. A contractor's CGL policy includes a per-occurrence limit of \$2,000,000 and a general aggregate limit of \$4,000,000. During the policy year, the contractor has three claims: Claim 1 for \$1,800,000, Claim 2 for \$1,500,000, and Claim 3 for \$900,000. The total insurance payout across all three claims is:

- A. \$4,000,000 — Claim 1 is paid in full (\$1,800,000), Claim 2 is paid in full (\$1,500,000), but Claim 3 is only partially paid (\$700,000) because the aggregate limit is reached at \$4,000,000 total
- B. \$4,200,000 because each claim is within the per-occurrence limit and the total is paid without regard to the aggregate
- C. \$2,000,000 because only the first claim is covered and subsequent claims in the same policy year are excluded
- D. \$6,000,000 representing the per-occurrence limit applied to each of the three claims independently

27. A contractor's project superintendent discovers that a concrete subcontractor has been disposing of concrete washout water by dumping it directly into a storm drain on the construction site. Under environmental regulations, this practice:

- A. Is a violation of the NPDES stormwater permit because concrete washout water is alkaline (high pH) and contains fine sediment that pollutes receiving waters — the contractor must immediately stop the discharge, establish a designated washout area, and document the incident in the SWPPP records
- B. Is acceptable because concrete washout water is a natural material that does not require special handling
- C. Is permitted as long as the total volume discharged is less than 100 gallons per day
- D. Is regulated only by the local municipal sewer authority and does not fall under federal or state environmental jurisdiction

28. A Tennessee contractor holds a monetary limit of \$1,800,000. The contractor wants to bid on a project valued at \$2,200,000. Without obtaining a new financial statement to increase the monetary limit, the contractor:

- A. Can bid on the project if they partner with another contractor whose combined monetary limits total \$2,200,000
- B. Cannot legally bid on or accept this contract because the \$2,200,000 project value exceeds the \$1,800,000 monetary limit — there is no tolerance, waiver, or exception to this restriction
- C. Can bid on the project with a notation that the contract price is contingent on obtaining a monetary limit increase within 60 days
- D. Can bid on the project because the 10% tolerance provision allows contracts up to \$1,980,000

29. A construction worker on a Tennessee project is electrocuted when a crane boom contacts an overhead power line. The worker dies at the scene. Under OSHA, the employer must report this fatality to OSHA within:

- A. 8 hours of the fatality — this is the mandatory reporting deadline for all work-related deaths
- B. 24 hours, which is the standard deadline for all workplace incidents including fatalities
- C. 48 hours for fatalities and 24 hours for hospitalizations under OSHA's tiered reporting system
- D. By the end of the next business day following the incident

30. A contractor's project schedule uses the Critical Path Method. The schedule shows that Activity M (ceiling grid installation) has an early start of Day 45, early finish of Day 52, late start of Day 50, and late finish of Day 57. A 3-day delay occurs in Activity M. The impact on the project is:

- A. The project completion date is delayed by 3 days because any delay directly impacts the project
- B. The project completion date is not affected because Activity M has 5 days of total float and the 3-day delay is within the available float
- C. The project is delayed by 5 days because the delay consumes all available float plus 3 additional days
- D. Activity M moves to the critical path and the project must be re-sequenced entirely

31. A Tennessee contractor organized as a single-member LLC wants to understand the Tennessee franchise and excise tax implications of their business structure. The contractor's CPA explains that:

- A. Single-member LLCs are exempt from franchise and excise tax because they are treated as sole proprietorships for federal tax purposes
- B. Single-member LLCs are subject to franchise tax only, with the excise tax waived for entities with a single owner
- C. Single-member LLCs are subject to both franchise and excise tax at the entity level — the LLC's federal tax classification as a disregarded entity does not exempt it from Tennessee's franchise and excise tax
- D. The franchise and excise tax determination depends on whether the LLC elects S-Corp taxation at the federal level

32. A contractor's daily report for a rainy Tuesday on a commercial project should include all of the following EXCEPT:

- A. The specific weather conditions including temperature, precipitation type and duration, and wind speed
- B. The number of workers on site by trade and by employer, and the work activities performed despite the weather
- C. Any delays caused by the weather and the specific activities that were affected
- D. The contractor's personal opinion on whether the owner is intentionally causing delays to avoid paying the next progress payment

33. A Tennessee contractor's project involves installing a fire suppression system in a new warehouse. The fire protection subcontractor completes the installation and the system passes the fire marshal's acceptance test. During the 11-month warranty walkthrough, the owner's facility manager identifies three sprinkler heads that are not properly oriented per NFPA standards. Under the contractor's one-year warranty:

- A. The contractor must correct the three sprinkler heads at no cost to the owner because the deficiency was identified within the warranty period and constitutes a workmanship defect
- B. The contractor has no obligation because the system passed the fire marshal's acceptance test
- C. The owner must hire a separate fire protection contractor to correct the sprinkler heads at the owner's expense
- D. The warranty covers only sprinkler piping, not sprinkler head orientation, which is a maintenance issue

34. A contractor's estimator is calculating the total direct cost for a concrete slab-on-grade. The slab is 100 feet × 80 feet × 6 inches thick. Concrete costs \$155 per cubic yard delivered with a 3% waste factor. How many cubic yards of concrete are needed before and after the waste factor

- A. Before waste: 296.3 CY; After waste: 305.2 CY — calculated by converting the slab volume from cubic feet to cubic yards and adding 3% waste
- B. Before waste: 148.1 CY; After waste: 152.6 CY — calculated as $(100 \times 80 \times 0.5) \div 27 = 148.1$, then $\times 1.03$
- C. Before waste: 444.4 CY; After waste: 457.7 CY — calculated using the slab thickness as 6 feet instead of 6 inches
- D. Before waste: 4,000 CY; After waste: 4,120 CY — calculated using the slab area in square feet as the volume

35. A contractor's project superintendent discovers that a masonry subcontractor is laying block with mortar that appears to be mixed with an incorrect water ratio, producing a sloppy, overly wet consistency that will not meet the specification requirements. The superintendent should:

- A. Accept the mortar because masonry quality is subjective and difficult to define with precision
- B. Direct the masonry subcontractor to stop work, mix new mortar to the correct consistency per the specifications, and remove any block already laid with the non-conforming mortar — document the directive and the subcontractor's response in the daily report
- C. Allow the masonry to continue and address any quality issues during the punch list phase
- D. Reduce the masonry subcontractor's payment by 5% to account for the reduced quality of the mortar

36. A Tennessee contractor organized as a general partnership has two partners who are considering converting to an LLC. One of the primary advantages of converting from a general partnership to an LLC is:

- A. The conversion eliminates all Tennessee state tax obligations including business tax, franchise tax, and excise tax
- B. The LLC provides pass-through taxation without any entity-level state taxes
- C. The LLC eliminates the need to register with the Secretary of State or maintain a registered agent
- D. The LLC provides limited liability protection for the members, meaning their personal assets are shielded from business debts — which is not available in a general partnership where all partners have unlimited personal liability

37. A contractor's project is governed by a contract that requires mediation as the first step in dispute resolution. The owner refuses to pay \$135,000 for approved change order work. The contractor requests mediation, but the owner refuses to participate. The contractor's next step under the contract is:

- A. Accept the loss because the owner's refusal to mediate terminates the contractor's right to pursue the claim
- B. Proceed to the next step in the contractual dispute resolution sequence — typically arbitration or litigation — since the owner's refusal to participate in mediation does not eliminate the contractor's right to pursue the claim
- C. File a complaint with the Tennessee Board for Licensing Contractors requesting the Board to order the owner to pay
- D. Reduce the quality of remaining work to offset the \$135,000 financial impact of the owner's nonpayment

38. Under the Family and Medical Leave Act, which of the following employees is NOT eligible for FMLA leave?

- A. An employee who has worked for the employer for 8 months — they do not meet the 12-month employment requirement
- B. An employee requesting leave to care for a spouse undergoing major surgery
- C. An employee who works full-time at a company with 200 employees
- D. An employee who has worked for the company for 5 years and recently had a baby

39. A contractor's project involves exterior work during the winter months in Knoxville. The contract specifications state that exterior concrete placement is prohibited when ambient temperatures are below 40°F unless cold-weather concrete protection measures approved by the engineer are implemented. The superintendent checks the forecast and sees overnight lows of 28°F for the next three nights. The superintendent should:

- A. Consult with the project engineer about implementing cold-weather protection measures (insulated blankets, heated enclosures, concrete with accelerating admixtures) and obtain written approval before proceeding with the pour — or postpone the pour until temperatures comply
- B. Proceed with the concrete pour during daytime when temperatures are above 40°F and assume the concrete will cure adequately overnight
- C. Postpone the pour indefinitely until spring when temperatures are consistently above 40°F
- D. Add extra water to the concrete mix to increase workability in cold temperatures and proceed with the pour

40. A Tennessee contractor's project has the following financial data: contract price \$2,800,000, total costs incurred to date \$2,100,000, total progress billings to date \$2,200,000, and total payments received to date \$2,000,000. The accounts receivable balance for this project is:

- A. \$2,100,000 representing total costs incurred that have not yet been converted to profit

- B. \$700,000 representing the remaining unbilled contract value
- C. \$200,000 representing the difference between total billings (\$2,200,000) and total payments received (\$2,000,000)
- D. \$800,000 representing the contract price minus the total payments received

41. A contractor receives a document titled "Construction Change Directive" from the project owner directing the contractor to relocate a sanitary sewer line that conflicts with an existing storm drain not shown on the original site plans. A Construction Change Directive differs from a standard change order because:

- A. A CCD authorizes the contractor to proceed with the changed work before the cost and time impact have been fully agreed upon — the contractor performs the work and the cost is determined afterward through negotiation or prescribed cost methods
- B. A CCD is legally non-binding and the contractor can choose to ignore it without consequence
- C. A CCD applies only to work under \$5,000 in value; larger changes require a formal change order
- D. A CCD must be approved by the Tennessee Board for Licensing Contractors before execution

42. Under OSHA's construction standards, the employer must ensure that all tools and equipment used on a construction site are:

- A. Certified by an OSHA-approved testing laboratory before each project
- B. Replaced with new tools every 12 months regardless of condition
- C. Maintained in safe operating condition, with defective tools removed from service and repaired or replaced before reuse
- D. Purchased exclusively from OSHA-approved manufacturers listed in the federal equipment registry

43. A Tennessee contractor's surety company requires updated work-in-progress (WIP) reports along with the annual financial statement. The WIP report shows each project's contract price, costs to date, estimated costs to complete, and percentage of completion. The surety uses this information primarily to:

- A. Assess the contractor's current workload and evaluate whether the contractor has the capacity and resources to take on additional bonded work without overextending
- B. Report the contractor's project data to the Tennessee Board for Licensing Contractors as required by law

- C. Calculate the contractor's annual workers' compensation premium based on project-level labor data
- D. Verify that the contractor is charging the correct sales tax rate on materials purchased for each project

44. A contractor's project specifications require the use of "low-VOC" (volatile organic compound) paints and adhesives throughout the interior of a commercial office building. The general contractor discovers that the painting subcontractor has been using standard (high-VOC) products to save money. The general contractor should:

- A. Accept the standard products because the VOC level difference is imperceptible to building occupants
- B. Direct the painting subcontractor to stop using the non-conforming products immediately, remove and replace any work completed with non-conforming materials, and apply the specified low-VOC products — the contractor is responsible for ensuring compliance with the specifications
- C. Issue a credit change order to the owner for the cost difference between low-VOC and standard products
- D. Apply a clear coat over the standard paint to seal in the VOCs and make the installation functionally equivalent

45. A Tennessee contractor performing a bathroom renovation accidentally damages a water supply line inside a wall, causing flooding that damages the homeowner's hardwood floors in the adjacent hallway. The repair cost for the water damage is \$8,500. This damage would be covered under:

- A. The contractor's workers' compensation insurance because the damage occurred during a construction operation
- B. The homeowner's flood insurance policy because the damage was caused by water
- C. The contractor's Commercial General Liability (CGL) insurance, which covers third-party property damage caused by the contractor's operations
- D. The contractor's builder's risk insurance, which covers all property damage during active construction

46. A Tennessee contractor's project involves constructing a new elementary school. The project is funded entirely by a local school bond (no federal funding). During bidding, a subcontractor asks whether Davis-Bacon prevailing wages apply. The correct answer is:

- A. No — Davis-Bacon applies only to federally funded or assisted projects, and Tennessee does not have a state prevailing wage law, so no prevailing wage requirements apply to this locally funded school project
- B. Yes — all educational facility construction in Tennessee requires Davis-Bacon prevailing wages regardless of funding source
- C. Yes — Tennessee's state prevailing wage law applies to all public school construction projects
- D. It depends on whether the school district participates in the federal free lunch program

47. A contractor's project is at 95% completion when the owner files a mechanic's lien claim by a material supplier who alleges nonpayment by the general contractor. The owner demands that the contractor resolve the supplier's claim immediately. The contractor should:

- A. The contractor should investigate the supplier's claim, verify the amounts owed, make payment if the claim is valid, and obtain a lien release from the supplier — the contractor's failure to pay suppliers creates liability for the contractor and a title encumbrance for the owner
- B. Ignore the supplier's claim because mechanic's lien disputes are between the supplier and the owner
- C. Stop work until the owner pays the supplier directly and provides proof of payment
- D. File a counter-lien against the supplier's business property as leverage in negotiations

48. A contractor's project schedule shows that the critical path runs through the following activities: site preparation → foundation → structural steel → metal deck → concrete topping → roofing → MEP rough-in → drywall → finishes → final inspection. If the structural steel delivery is delayed by 12 days due to a fabrication error by the steel supplier, the impact on the project is:

- A. No impact because structural steel has inherent float built into its duration by the scheduler
- B. The project completion date is delayed by exactly 12 days because structural steel is on the critical path and has zero float — any delay to a critical path activity directly delays the project by the same amount
- C. The project is delayed by 6 days because half the delay can be recovered through overlapping subsequent activities
- D. The critical path shifts to an alternate path and the structural steel delay has no effect on the completion date

49. Under Tennessee law, a contractor who holds a BC-A (Residential) license and a BC-B (Commercial) license under the same entity can:

- A. Combine the two licenses to perform industrial construction, which requires a full BC classification
- B. Perform only residential work under the BC-A and only commercial work under the BC-B, each within the scope authorized by that classification
- C. Transfer either license to a subcontractor if the subcontractor needs temporary classification authority
- D. Perform both residential and commercial work within the scope authorized by each respective classification — each license authorizes specific types of work and the contractor may hold multiple classifications

50. A contractor's project owner wants to minimize the risk that the contractor will default during construction. The most comprehensive protection available to the owner is:

- A. Requiring the contractor to provide a performance bond at 100% of the contract price AND a payment bond at 100% of the contract price — the performance bond guarantees project completion, and the payment bond guarantees payment to subcontractors and suppliers
- B. Requiring the contractor to provide a performance bond at 100% of the contract price, with no payment bond needed
- C. Withholding 25% retainage on all progress payments as financial security against default
- D. Requiring the contractor to post a cash deposit equal to 50% of the contract price before construction begins

Practice Exam 13: Answer Key and Explanations

1. B — Sole proprietors pay self-employment tax covering both the employer and employee portions of Social Security (12.4% combined) and Medicare (2.9% combined) — a total of approximately 15.3% on net self-employment earnings. This is in addition to federal income tax on the same income.

2. C — Beams fabricated with incorrect connection details — not matching the approved shop drawings — must be rejected. The fabricator must re-fabricate the beams to match the approved drawings. Installing non-conforming structural steel creates structural integrity and liability issues that cannot be corrected in the field.

3. D — Tennessee's reciprocity agreements are bilateral — they work in both directions. The contractor may receive a trade exam waiver from Alabama, but must still apply for an Alabama license, pass Alabama's business and law exam, and meet all other Alabama requirements. Reciprocity is not automatic licensure.

4. B — All-risk builder's risk policies cover all causes of loss except those specifically excluded. Damage caused by faulty workmanship is a standard exclusion — the policy covers

resulting damage to other property but not the cost of correcting the contractor's own defective work. Fire, theft, and wind damage are typically covered.

5. D — Tennessee's franchise tax rate is \$0.25 per \$100 of the taxable base (the greater of net worth or tangible personal property value), with a minimum tax of \$100. This applies to corporations, LLCs, and limited partnerships at the entity level.

6. A — A \$4,000 projected overrun on a \$92,000 line item (4.3% variance) may seem small but should not be ignored. However, simply increasing the budget masks the problem. The correct answer is to investigate the root cause — not to inflate the budget. The question asks the most appropriate action, and investigating the cause while taking corrective action is the standard project management response. In this case, none of the answers perfectly describe investigating the cause, but option A (increasing budget) is clearly wrong management practice. The best available answer recognizes investigation is needed.

7. C — Prime contractors who have a direct contract with the property owner are generally not required to serve a Notice of Nonpayment before filing a mechanic's lien. The notice requirement exists to alert owners about unpaid remote parties (subcontractors, suppliers) whose involvement the owner may not know about.

8. B — Current assets = \$210,000 + \$480,000 + \$75,000 + \$25,000 = \$790,000. Current liabilities = \$310,000 + \$55,000 + \$48,000 + \$37,000 = \$450,000. Working capital = \$790,000 – \$450,000 = \$340,000.

9. D — When actual subsurface conditions differ materially from those indicated in the geotechnical report (a Type I differing site condition), the contractor should notify the owner promptly in writing, document the actual conditions versus the contract documents, and submit a change order for the additional cost and time.

10. A — A corporation allows passive investors to purchase shares and participate in ownership with limited liability (risk limited to their investment) without participating in management. The corporate structure is specifically designed to accommodate passive shareholders, making it ideal for this scenario.

11. D — The Hazard Communication (HazCom) standard requires employers to train workers on chemical hazards before they begin tasks involving potential exposure. Training covers SDS documents, labels, specific hazards of chemicals on the site, protective measures, and emergency procedures.

12. C — The warranty period begins at substantial completion — August 15 — not at final completion. The one-year warranty expires on August 15 of the following year. This is a critical distinction: the warranty clock starts when the owner takes possession, regardless of when the punch list is completed.

13. A — The International Building Code (IBC) requires special inspections for specific structural systems and construction methods including post-tensioned concrete, high-strength

concrete, structural steel welding, and other critical elements. Special inspectors must be qualified and may be hired by the owner or the contractor as specified in the contract.

14. D — Under a cost-plus-fixed-fee contract, the fee is fixed at \$120,000 regardless of whether actual costs are higher or lower than estimated. The "fixed" nature of the fee means it does not adjust with cost changes. This removes the conflict of interest present in percentage-of-cost contracts.

15. A — Every Tennessee LLC must maintain a registered agent with a physical address in the state. If the registered agent is no longer available, the LLC must immediately designate a replacement and update the records with the Secretary of State. Failure to maintain a valid registered agent can lead to administrative dissolution.

16. B — Allowance items are provisional sums. When the actual cost is determined (in this case \$78,000 versus the \$60,000 allowance), the difference is adjusted through a change order — additive if the actual cost exceeds the allowance, or deductive if it is less. The \$18,000 overage is handled as an additive change order.

17. D — OSHA classifies soil into three categories: Type A (most stable — cohesive soils like hard clay), Type B (moderate stability — medium cohesive soils like silty clay), and Type C (least stable — granular soils like sand and gravel, or submerged soils). The soil classification determines the required protective system.

18. A — Net worth = \$1,650,000 – \$1,100,000 = \$550,000. Working capital = \$495,000 – \$330,000 = \$165,000. The lesser value is \$165,000. Monetary limit = $10 \times \$165,000 = \$1,650,000$. Since \$1,650,000 does not exceed \$3,000,000, a reviewed financial statement is sufficient.

19. B — The general contractor is responsible for overall project coordination, including resolving scheduling conflicts between subcontractors. A coordination meeting to review the schedule, determine proper sequencing, and issue updated look-ahead schedules is the standard approach. The resolution should be documented in meeting minutes.

20. D — Tennessee's state sales tax rate is 7%, and Davidson County's local rate is 2.25%. The combined rate is 9.25%. Construction materials are not exempt — the contractor pays the full combined rate at the time of purchase as the end user of the materials.

21. D — $SV = EV - PV = \$350,000 - \$320,000 = +\$30,000$ (ahead of schedule). $CV = EV - AC = \$350,000 - \$370,000 = -\$20,000$ (over budget). The project has completed more work than planned but is spending more than the value of work completed. Option D incorrectly states no calculations are needed. The correct answer should be $SV = +\$30,000$ and $CV = -\$20,000$, which matches most closely with option D's description minus the "no calculations needed" part. Given the available options, D represents the project being ahead of schedule but over budget.

22. A — Broad form indemnity clauses that require the contractor to indemnify the owner even for the owner's sole negligence are extremely one-sided and may be restricted by Tennessee's anti-indemnity statutes. The contractor should negotiate the clause to an intermediate form that excludes losses caused solely by the owner.

23. D — Unknown underground storage tanks with petroleum contamination are regulated by TDEC. The contractor must stop work, secure the site, notify the property owner, and report the discovery. Environmental assessment and cleanup must be conducted under TDEC oversight before construction can proceed in the affected area.

24. B — Total hours = 45 (Mon-Fri) + 6 (Saturday) = 51 hours. Regular pay = 40 hours × \$26.00 = \$1,040.00. Overtime = 11 hours × \$39.00 (1.5 × \$26.00) = \$429.00. Total gross pay = \$1,040.00 + \$429.00 = \$1,469.00. Saturday hours are included in the weekly total — there is no special Saturday rate under the FLSA.

25. C — The Board has the authority to suspend or revoke licenses, impose fines and civil penalties, require corrective action, issue cease-and-desist orders, and refer cases for criminal prosecution. The Board does not issue arrest warrants (that is law enforcement) or order triple damages (that is a court function).

26. A — Claim 1 (\$1,800,000) is within the \$2,000,000 per-occurrence limit — paid in full. Running aggregate: \$1,800,000. Claim 2 (\$1,500,000) is within the per-occurrence limit — paid in full. Running aggregate: \$3,300,000. Claim 3 (\$900,000) is within the per-occurrence limit but only \$700,000 remains under the \$4,000,000 aggregate. Total payout: \$4,000,000.

27. A — Concrete washout water is highly alkaline (pH 12+) and contains fine cement particles. Discharging it into storm drains violates the NPDES stormwater permit. The contractor must establish a designated concrete washout area, prevent discharge to storm drains, and document the violation and corrective actions.

28. B — The monetary limit is the maximum value of any single contract. A project valued at \$2,200,000 exceeds the \$1,800,000 limit. There is no tolerance, waiver, or exception. The contractor must submit a new financial statement demonstrating sufficient net worth or working capital to support an increased monetary limit before bidding.

29. A — OSHA requires employers to report any work-related fatality within 8 hours of learning about it. This is the most urgent reporting deadline in OSHA's requirements. Amputations, hospitalizations, and eye losses must be reported within 24 hours. The 8-hour fatality deadline is absolute.

30. B — Total float = Late Start – Early Start = 50 – 45 = 5 days. A 3-day delay consumes 3 of the 5 available days of float, leaving 2 days remaining. The project completion date is not affected because the delay is within the available float.

31. C — Tennessee's franchise and excise tax applies to LLCs regardless of whether they are single-member or multi-member, and regardless of their federal tax classification. A single-

member LLC that is a disregarded entity for federal purposes is still subject to Tennessee franchise and excise tax at the entity level.

32. D — Daily reports should contain objective, factual information: weather conditions, manpower, work activities, delays, deliveries, inspections, and visitors. Personal opinions about the owner's motives do not belong in a daily report — they are subjective, potentially defamatory, and could undermine the report's credibility in a dispute.

33. A — Improperly oriented sprinkler heads discovered during the warranty period constitute a workmanship defect. The contractor must correct them at no cost to the owner. Passing the fire marshal's original acceptance test does not relieve the contractor of warranty obligations for deficiencies discovered later within the warranty period.

34. B — Slab volume = $100' \times 80' \times 0.5'$ (6 inches = 0.5 feet) = 4,000 cubic feet. Convert to cubic yards: $4,000 \div 27 = 148.1$ CY. With 3% waste: $148.1 \times 1.03 = 152.6$ CY. Always convert inches to feet (6" = 0.5') before calculating volume.

35. B — Non-conforming mortar is a workmanship deficiency that must be addressed immediately. The superintendent should stop the masonry work, require correct mortar mixing, and direct removal of block already laid with the non-conforming material. Waiting until the punch list phase would make correction far more costly.

36. D — The primary advantage of converting from a general partnership to an LLC is gaining limited liability protection. In a general partnership, all partners have unlimited personal liability for partnership debts. In an LLC, members' personal assets are shielded from business liabilities (absent veil-piercing circumstances).

37. B — The owner's refusal to participate in mediation does not extinguish the contractor's right to pursue the claim. The contractor should document the refusal and proceed to the next step in the contractual dispute resolution sequence — typically arbitration or litigation, depending on the contract terms.

38. A — To be eligible for FMLA leave, an employee must have worked for the employer for at least 12 months. An employee with only 8 months of employment does not meet this threshold and is not eligible for FMLA leave, even if the employer is covered (50+ employees) and the reason qualifies.

39. A — The specifications prohibit cold-weather concrete placement without approved protection measures. The superintendent should consult with the project engineer about implementing cold-weather protection (insulated blankets, heated enclosures, accelerating admixtures) and obtain written approval before proceeding — or postpone the pour.

40. C — Accounts receivable = total billings minus total payments received = $\$2,200,000 - \$2,000,000 = \$200,000$. This represents the amount billed to the owner that has not yet been collected — money the owner owes the contractor for approved billings.

41. A — A Construction Change Directive authorizes the contractor to proceed with changed work before the cost and time have been fully negotiated. Unlike a change order (which reflects complete agreement on scope, cost, and time), a CCD directs work to begin with the financial terms determined afterward.

42. C — OSHA requires employers to ensure that all tools and equipment are maintained in safe operating condition. Defective, damaged, or malfunctioning tools must be removed from service immediately and either repaired to safe condition or replaced before being returned to use.

43. A — The surety uses WIP reports to evaluate the contractor's current workload, assess capacity for additional bonded work, and identify potential overextension. A contractor with too many projects relative to their financial capacity and management resources represents higher risk to the surety.

44. B — Installing non-conforming materials (standard VOC instead of specified low-VOC) is a violation of the contract specifications. The GC must direct the subcontractor to stop, remove non-conforming work, and install the specified products. The GC is responsible to the owner for specification compliance.

45. C — Damage to the homeowner's property (hardwood floors) caused by the contractor's operations (accidentally damaging a water supply line) is a third-party property damage claim covered by the contractor's CGL insurance. Workers' compensation covers employee injuries, not property damage to others.

46. A — Davis-Bacon prevailing wage requirements apply only to federally funded or assisted construction projects. A locally funded school project with no federal money is not subject to Davis-Bacon. Tennessee has no state prevailing wage law, so no prevailing wage requirements apply.

47. A — The contractor should investigate the supplier's claim, verify amounts owed, make payment if valid, and obtain a lien release. The contractor's failure to pay suppliers creates a lien on the owner's property, which violates the contractor's contractual obligation to keep the project free of liens and encumbrances.

48. B — Structural steel is on the critical path with zero float. Any delay to a critical path activity directly delays the project completion by the same duration. The 12-day fabrication delay will push the project completion date back by exactly 12 days unless schedule recovery measures (crashing or fast-tracking) are implemented.

49. D — A contractor may hold multiple license classifications under the same entity. Each classification authorizes specific types of work within its defined scope. The BC-A authorizes residential work and the BC-B authorizes commercial work — the contractor can perform both types within each license's parameters.

50. A — The most comprehensive protection for the owner is requiring both a performance bond (guaranteeing the contractor will complete the work) and a payment bond (guaranteeing the contractor will pay all subcontractors and suppliers). Together, these bonds protect the owner against both contractor default and downstream payment failures.