

PRACTICE EXAM 14: TENNESSEE BUSINESS AND LAW SIMULATION (50 QUESTIONS)

Total Questions: 50 | **Time Limit:** 140 Minutes | **Passing Score:** 73% (37/50)

1. A general contractor begins a residential remodeling project with a contract price of \$22,000 for labor and materials. Midway through the project, the homeowner approves a change order adding \$4,500 in additional work. What licensing obligation does this trigger?

- A. No license is required because the original contract was under \$25,000
- B. The contractor must obtain a license only if the change order is signed before work begins
- C. The contractor must stop all work and apply for a license before performing the change order
- D. The contractor must hold a valid Tennessee contractor license because the total project cost now exceeds \$25,000

2. A contractor's most recent financial statement shows total assets of \$820,000, total liabilities of \$490,000, current assets of \$310,000, and current liabilities of \$195,000. What is the contractor's maximum monetary limit?

- A. \$3,300,000 based on ten times the net worth of \$330,000
- B. \$1,150,000 based on ten times the working capital of \$115,000
- C. \$1,950,000 based on ten times the current assets of \$195,000
- D. \$820,000 based on the total value of the contractor's assets

3. A contractor operating as a sole proprietorship earns \$85,000 in net business income for the year. Which of the following Tennessee tax obligations applies to this contractor?

- A. The contractor must pay franchise and excise tax on the net earnings
- B. The contractor owes Tennessee state income tax at the individual rate
- C. The contractor must pay self-employment tax of approximately 15.3% on the net earnings
- D. The contractor is exempt from all Tennessee state-level taxation

4. During a commercial building project, the general contractor discovers that the architectural drawings show a window opening at 36 inches wide, but the written specifications call for a

42-inch opening. According to standard contract interpretation principles, which dimension controls?

- A. The dimension shown on the drawings controls because they provide the most precise visual detail
- B. The contractor should use whichever dimension is less expensive to install
- C. The contractor must stop work and wait for a formal change order before proceeding
- D. The specification dimension of 42 inches controls because written specifications generally take precedence over drawings

5. A subcontractor furnishes materials to a private commercial project on March 10 and completes all work on April 25. By what date must the subcontractor file a mechanic's lien to preserve lien rights?

- A. June 8, which is 90 days after the date materials were first furnished
- B. July 24, which is 90 days after the last day of furnishing labor or materials
- C. October 22, which is 180 days after the date materials were first furnished
- D. April 25 of the following year, which is one year after project completion

6. An employer with 35 employees in Tennessee wants to receive a 5% credit on workers' compensation insurance premiums. Which testing components must the employer's drug-free workplace program include?

- A. Pre-employment, reasonable suspicion, post-accident, and random testing
- B. Pre-employment and post-accident testing only
- C. Random testing and annual screening of all employees
- D. Reasonable suspicion and post-accident testing only

7. A project owner terminates a contractor for convenience on a \$500,000 lump-sum contract after the contractor has completed 60% of the work at a cost of \$270,000. The contractor's anticipated profit on the remaining work was \$45,000. What is the contractor entitled to recover?

- A. The full \$500,000 contract price since termination was not caused by the contractor's breach
- B. Payment for completed work plus costs incurred, plus profit earned on the completed portion, but not anticipated profit on unperformed work
- C. Only the direct costs of \$270,000 with no markup for overhead or profit
- D. Payment for completed work plus the full \$45,000 in anticipated profit on the unperformed portion

8. A Tennessee contractor has a net worth of \$450,000 and working capital of \$280,000. What type of financial statement must this contractor submit to the Board, and what is the maximum monetary limit?

- A. A reviewed financial statement is required, and the maximum monetary limit is \$2,800,000
- B. An audited financial statement is required, and the maximum monetary limit is \$4,500,000
- C. A reviewed financial statement is required, and the maximum monetary limit is \$4,500,000
- D. An audited financial statement is required, and the maximum monetary limit is \$2,800,000

9. A material supplier provides drywall and finishing materials to a residential project but has no direct contract with the property owner. The supplier's last delivery occurs on June 15. What must the supplier do to preserve mechanic's lien rights?

- A. File a mechanic's lien directly with the county register of deeds within 90 days of the last delivery
- B. Send a notice of nonpayment to the property owner within 30 days of the last delivery
- C. Send a Notice of Nonpayment to the prime contractor or owner within 90 days of the last delivery date
- D. No action is required because suppliers automatically have lien rights under Tennessee law

10. A contractor is constructing a municipal water treatment facility funded entirely by the city government. A plumbing subcontractor on the project has not been paid for \$78,000 in completed work. What is the subcontractor's best legal remedy?

- A. Filing a mechanic's lien against the water treatment facility within 90 days
- B. Filing a claim against the payment bond because liens cannot be filed against public property
- C. Suing the city directly under Tennessee's prompt payment statute
- D. Filing a complaint with the Tennessee Board for Licensing Contractors

11. An employee working on a commercial roofing project falls from a height of 8 feet and suffers a broken leg requiring hospitalization. Within what timeframe must the employer report this incident to OSHA?

- A. Within 24 hours of learning about the hospitalization
- B. Within 8 hours of learning about the hospitalization
- C. Within 72 hours of the incident occurring on the jobsite
- D. Within 48 hours of the employee being admitted to the hospital

12. A Tennessee contractor wants to hire an electrical subcontractor for a \$30,000 scope of work on a residential project. What licensing requirement applies to the electrical subcontractor?

- A. No license is required because subcontractors are covered under the general contractor's license
- B. The electrical subcontractor needs only a Tennessee business license
- C. The electrical subcontractor must hold a valid Tennessee contractor license because electrical work exceeding \$25,000 is not covered under the BC classification
- D. The electrical subcontractor is exempt if the general contractor signs a liability waiver

13. A contractor's qualifying agent resigns effective September 1. By what date must the contractor report the departure to the Board, and by what date must a replacement be designated?

- A. Report within 30 days by October 1, and replace within 180 days by February 28
- B. Report within 5 days by September 6, and replace within 60 days by October 31
- C. Report within 15 days by September 16, and replace within 120 days by December 30
- D. Report within 10 days by September 11, and replace within 90 days by November 30

14. A general contractor on a commercial project receives a written change order from the architect adding an upgraded HVAC system. The change order is signed by the owner and the contractor before the additional work begins. Which statement best describes proper change order management?

- A. The change order is invalid because only the project owner can initiate changes
- B. This change order was handled correctly because it was written, signed by both parties, and approved before the additional work began
- C. The change order is invalid because the architect has no authority to issue changes
- D. The contractor should have completed the work first and submitted the change order for approval afterward

15. A contractor purchases \$12,000 worth of lumber from a building supply store for use on a construction project. The state sales tax rate is 7% and the local rate is 2.75%. How much total sales tax does the contractor owe?

- A. \$840 because contractors only pay the state portion of sales tax
- B. No sales tax is owed because building materials are exempt for licensed contractors

C. \$1,170 because the contractor is the end user and owes the combined state and local rate of 9.75%

D. \$330 because the local rate applies only to retail consumer purchases

16. A construction company organized as a general partnership earns \$200,000 in gross receipts during the tax year. Which Tennessee tax obligations apply to this business entity?

A. Business tax on gross receipts, but the partnership is exempt from franchise and excise tax

B. Franchise tax, excise tax, and business tax on gross receipts

C. Only federal income tax obligations since partnerships are pass-through entities

D. Excise tax on net earnings only, with no franchise or business tax obligation

17. A contractor holds a license with a monetary limit of \$750,000. The contractor is offered a project with a total cost of \$800,000 including materials, labor, land, and profit. The contractor believes the labor-only portion is under \$750,000. Can the contractor legally accept this project?

A. No, because the monetary limit applies to the total project cost including materials, labor, land, and profit

B. Yes, because the monetary limit applies only to the labor portion of the contract

C. Yes, if the contractor obtains a performance bond for the difference

D. No, unless the contractor files for a temporary limit increase with the Board

18. A construction worker is found unresponsive on a jobsite and is pronounced dead by emergency responders. Within what timeframe must the employer report this fatality to OSHA?

A. Within 24 hours of the fatality occurring on the jobsite

B. Within 24 hours of the employer learning about the fatality

C. Within 48 hours of the fatality being confirmed by medical personnel

D. Within 8 hours of the employer learning about the fatality

19. A contractor licensed in Georgia wants to obtain a Tennessee contractor license. Under the reciprocity agreement between the two states, which of the following is accurate?

A. The Georgia contractor may receive a waiver of the trade exam but must still pass the Tennessee Business and Law exam

B. The Georgia contractor receives a full waiver of both the trade exam and the Business and Law exam

C. The Georgia contractor must retake both the trade and Business and Law exams in Tennessee

D. The Georgia contractor may transfer the Georgia license directly without any additional testing

20. An excavation contractor digs a trench that measures 6 feet deep in soil classified as Type B. According to OSHA regulations, what protective system requirement applies?

A. No protective system is required because Type B soil is considered stable

B. A protective system is required only if the trench exceeds 10 feet in depth

C. A protective system such as sloping, shoring, or a trench box is required because the trench exceeds 5 feet in depth

D. A protective system is optional if a competent person determines the soil is dry

21. A contractor enters into a cost-plus contract with a 12% fee on a commercial renovation project. The actual construction costs total \$380,000, which is \$45,000 over the original estimate. Who bears the risk of the cost overrun, and what is the contractor's total fee?

A. The owner bears the cost overrun risk; the contractor's fee is \$45,600 based on the 12% applied to the total actual costs

B. The contractor bears the cost overrun risk and must absorb the \$45,000 overage

C. The owner and contractor split the overrun equally, reducing the contractor's fee proportionally

D. The owner bears the cost overrun risk; the contractor's fee is \$45,600, calculated as 12% of the total actual costs of \$380,000

22. A masonry subcontractor performs work valued at \$115,000 on a commercial project. What licensing requirement applies to this subcontractor under Tennessee law?

A. No license is required for masonry subcontractors regardless of the contract amount

B. The masonry subcontractor must hold a Limited Licensed Masonry Contractor (LMC) license because the work exceeds \$100,000

C. The masonry subcontractor needs only a general business license from the county

D. The general contractor's license covers all masonry subcontractor work on the project

23. An employer with 12 employees in Tennessee terminates a worker without providing a reason. The employee claims the termination was discriminatory based on race. Under which law can the employee file a discrimination claim?

- A. Title VII of the Civil Rights Act, which applies to employers with 12 or more employees
- B. The Americans with Disabilities Act, which covers race-based discrimination claims
- C. The Tennessee Human Rights Act, which applies to employers with 8 or more employees
- D. The Age Discrimination in Employment Act, which covers all forms of workplace discrimination

24. A contractor is calculating the burdened labor rate for a carpenter earning \$28.00 per hour. The employer's FICA contribution is 7.65%, FUTA/SUTA combined is 3.2%, workers' compensation insurance adds 8.5%, and health benefits cost \$3.50 per hour. What is the approximate burdened labor rate?

- A. \$36.92 per hour, calculated by adding the percentage-based costs and the flat benefit amount to the base wage
- B. \$31.50 per hour because only the FICA and benefit costs apply
- C. \$28.00 per hour because the additional costs are overhead, not part of the labor rate
- D. \$33.42 per hour because workers' compensation is paid by the employee

25. A contractor is awarded a unit-price contract for installing 500 linear feet of concrete curbing at \$45 per linear foot. During construction, the actual quantity installed increases to 620 linear feet due to field conditions. Who bears the financial risk of the additional quantity?

- A. The contractor bears all risk because the unit price was agreed upon in advance
- B. The risk is shared equally between the owner and the contractor
- C. The contractor bears the risk because unit-price contracts are fixed-price agreements
- D. The owner bears the quantity risk and must pay for the additional 120 linear feet at \$45 per foot

26. A construction company organized as an LLC has tangible property in Tennessee valued at \$180,000 and a net worth of \$250,000. What is the company's franchise tax liability?

- A. \$450 based on \$0.25 per \$100 of the tangible property value of \$180,000
- B. \$625 based on \$0.25 per \$100 of the net worth of \$250,000 because it is the greater value
- C. \$250 because LLCs pay a flat franchise tax rate in Tennessee
- D. \$0 because franchise tax does not apply to limited liability companies

27. A roofing subcontractor begins work on a residential re-roofing project on February 1, 2024. Under Tennessee law effective January 1, 2014, what licensing requirement applies to this subcontractor?

- A. The roofing subcontractor must hold a valid Tennessee contractor license because roofing subcontractors have been required to be licensed since January 1, 2014
- B. No license is required for roofing subcontractors working on residential projects
- C. The roofing subcontractor needs only a specialty roofing certification from the manufacturer
- D. Licensing is required only if the roofing project exceeds \$50,000 in total value

28. A contractor wants to obtain an unlimited license classification in Tennessee. The contractor's financial statement shows a net worth of \$350,000 and working capital of \$280,000. Does the contractor qualify for unlimited status?

- A. Yes, because the net worth exceeds \$300,000, which is the only requirement
- B. Yes, because the combined net worth and working capital exceed \$600,000
- C. No, because both net worth and working capital must each exceed \$300,000, and the working capital falls short
- D. No, because unlimited licenses require a minimum net worth of \$500,000

29. An OSHA compliance officer issues a citation to a contractor for a scaffolding violation. The contractor wants to contest the citation. Within how many working days must the contractor file a notice of contest?

- A. 10 working days from the date the citation was received
- B. 30 calendar days from the date the citation was issued
- C. 20 working days from the date of the violation inspection
- D. 15 working days from the date the citation was received

30. A property owner signs a conditional lien waiver and provides it to the general contractor in exchange for a progress payment check. The check is later returned by the bank due to insufficient funds. What is the status of the conditional waiver?

- A. The conditional waiver is effective immediately upon signing regardless of payment status
- B. The conditional waiver is not effective because payment was never actually received
- C. The conditional waiver becomes effective 30 days after signing
- D. The waiver is partially effective for the amount of work completed to date

31. A contractor is preparing a bid for a public school construction project. The bid documents require a bid bond. What is the typical percentage range for a bid bond, and what does it guarantee?

- A. 10–20% of the bid amount, guaranteeing the contractor will complete the project on time
- B. 100% of the bid amount, guaranteeing payment to all subcontractors and suppliers
- C. 5–10% of the bid amount, guaranteeing the contractor will enter into the contract if awarded the bid
- D. 50% of the bid amount, guaranteeing the contractor has sufficient financial resources

32. A contractor using the percentage-of-completion method has a \$600,000 contract. Costs incurred to date total \$270,000, and total estimated costs are \$450,000. How much revenue should the contractor recognize?

- A. \$360,000, calculated as costs to date divided by total estimated costs multiplied by the contract price
- B. \$270,000, which equals the actual costs incurred to date
- C. \$300,000, which is 50% of the total contract price
- D. \$600,000, because revenue is recognized in full once the project is underway

33. An employer with 55 employees has a worker who has been employed for 14 months and requests leave to care for a newborn child. The employer's only location has all 55 employees working within the same building. Is the employee eligible for FMLA leave?

- A. No, because FMLA only covers leave for the employee's own serious health condition
- B. Yes, but only for 6 weeks of unpaid leave rather than the standard 12 weeks
- C. No, because the employee must have worked for the employer for at least 24 months
- D. Yes, because the employer has 50+ employees, all within a 75-mile radius, and the employee has worked for more than 12 months

34. A contractor is evaluating the risk profile of a time-and-materials contract for a renovation project with an undefined scope. Which statement accurately describes the risk allocation in this contract type?

- A. The contractor bears the highest risk because there is no guaranteed payment amount
- B. The owner bears the highest cost risk because there is no cost ceiling, and the contractor is reimbursed for actual time and materials
- C. Risk is equally shared because both parties agree to adjust costs monthly
- D. The contractor bears all risk because T&M contracts include a guaranteed maximum price

35. A contractor is required to post OSHA Form 300A in the workplace. During what date range must this form be displayed, and for how many years must injury and illness records be retained?

- A. February 1 through April 30, with records retained for 5 years
- B. January 1 through March 31, with records retained for 3 years
- C. March 1 through May 31, with records retained for 7 years
- D. January 1 through June 30, with records retained for 5 years

36. A contractor files a mechanic's lien on a private residential property on August 10. By what date must the contractor file a lawsuit to enforce the lien, and what happens if the deadline is missed?

- A. Within 90 days of filing by November 8, or the lien becomes subordinate to other claims
- B. Within 6 months of filing by February 10, or the lien is reduced by 50%
- C. Within 1 year of the filing date by August 10 of the following year, or the lien expires and becomes unenforceable
- D. Within 2 years of filing by August 10 two years later, or the lien converts to a general judgment

37. A construction company wants to deduct payments to subcontractors from its gross receipts when calculating Tennessee business tax. Under what condition is this deduction allowed?

- A. The deduction is allowed for all payments to subcontractors regardless of their licensing status
- B. The deduction is allowed only if the subcontractor payments exceed \$50,000 annually
- C. The deduction is not permitted under Tennessee business tax law
- D. The deduction is allowed only for payments made to properly licensed subcontractors

38. A contractor with 60 employees is hiring new workers for a commercial project. Which employment verification requirements must the contractor meet?

- A. Both I-9 forms for all new hires and E-Verify enrollment because the contractor has 50 or more employees
- B. Only I-9 forms are required because E-Verify is voluntary for private employers
- C. Only E-Verify is required because it replaces the I-9 form requirement
- D. Neither I-9 nor E-Verify is required for construction industry employers

39. A contractor enters a lump-sum contract for \$425,000 to build a commercial warehouse. During construction, material prices increase by 15%, adding \$38,000 in unexpected costs. Who is responsible for the cost increase?

- A. The owner is responsible because material price increases constitute a force majeure event
- B. The contractor bears the cost increase because in a lump-sum contract, the contractor assumes the risk of cost fluctuations
- C. The cost increase is split evenly between the owner and the contractor
- D. The surety company is responsible because the performance bond covers cost overruns

40. A contractor operating under a BC-A/r (restricted residential) classification is offered a joint venture opportunity with another contractor on a \$200,000 residential project. Can the contractor participate in this joint venture?

- A. Yes, because joint ventures are permitted for all license classifications
- B. Yes, if the other contractor holds an unrestricted license classification
- C. No, because BC-A/r classification holders are prohibited from entering into joint ventures
- D. No, unless the total contract value is under \$125,000

41. A contractor's surety issues a performance bond on a \$1,200,000 public project. The contractor defaults, and the surety pays \$350,000 to complete the project. What is the contractor's obligation to the surety?

- A. The contractor must reimburse the surety for the \$350,000 because a bond is not insurance and the contractor remains liable for claims paid
- B. The contractor has no obligation because the bond transfers all risk to the surety
- C. The contractor must reimburse only 50% of the claim amount under standard indemnity terms
- D. The contractor's obligation is limited to the bond premium already paid

42. A Tennessee contractor wants to apply for up to five specialty license classifications. How many Business and Law exams must the contractor pass to hold all five specialty licenses?

- A. Five separate Business and Law exams, one for each specialty classification
- B. Two exams covering different specialty groupings
- C. Three exams because specialties are grouped into three testing categories
- D. One Business and Law exam, which covers all specialty classifications held under a single license

43. A contractor is calculating profit on a project with direct costs of \$180,000 and overhead costs of \$36,000. According to proper construction accounting principles, on what cost base should the contractor calculate profit?

- A. Only on the direct costs of \$180,000 because overhead is a separate expense category
- B. On the total cost of \$216,000, which includes both direct costs and overhead
- C. Only on the overhead of \$36,000 because profit is a percentage of indirect costs
- D. On the direct costs minus a 10% contingency allowance

44. A contractor receives a termination for cause notice on a commercial project. The notice cites defective workmanship as the grounds for termination. What must the owner have provided before the termination is valid?

- A. Written notice identifying the specific breach and a reasonable cure period for the contractor to correct the deficiencies
- B. Verbal notice to the contractor's project manager at least 48 hours before termination
- C. A formal arbitration hearing with both parties present before any termination action
- D. Approval from the Tennessee Board for Licensing Contractors before issuing the termination

45. A scaffolding system on a construction site must support workers, tools, and materials. According to OSHA regulations, what is the minimum safety factor required for scaffolding, and who must supervise its use?

- A. A 2:1 safety factor with supervision by a licensed structural engineer
- B. A 3:1 safety factor with supervision by the project superintendent
- C. A 6:1 safety factor with supervision by a certified scaffold inspector
- D. A 4:1 safety factor with supervision by a competent person

46. A homeowner and contractor sign a construction contract for a \$400,000 custom home. The contract includes a force majeure clause. A severe ice storm delays the project by three weeks. What is the contractor typically entitled to under the force majeure provision?

- A. No relief because weather events are foreseeable and not covered by force majeure
- B. Both a time extension and full compensation for all costs incurred during the delay
- C. A time extension for the delay period, but generally not additional compensation for the idle time
- D. Automatic termination of the contract with payment for all work completed to date

47. A contractor has a Tennessee license with a monetary limit of \$1,800,000. What minimum amount of general liability insurance must this contractor maintain?

- A. \$100,000 because all Tennessee contractors have the same minimum GL requirement
- B. \$1,000,000 because the monetary limit exceeds \$1,501,000
- C. \$500,000 because the monetary limit falls between \$501,000 and \$1,500,000
- D. \$1,800,000 because GL coverage must equal the full monetary limit

48. According to Tennessee construction contract law, what is the correct order of precedence when interpreting conflicting provisions within a construction contract?

- A. Drawings → specifications → general conditions → agreement → addenda
- B. Specifications → drawings → general conditions → agreement → supplementary conditions
- C. Agreement → supplementary conditions → general conditions → specifications → drawings → addenda
- D. General conditions → supplementary conditions → agreement → specifications → drawings

49. A contractor has failed the Tennessee Business and Law exam three times. What additional requirement must the contractor fulfill before being allowed to take the exam again?

- A. Complete a 40-hour continuing education course approved by the Board
- B. Wait a mandatory 12-month period before reapplying for the exam
- C. Submit a new application with an increased examination fee
- D. Appear before the Board for an interview before being permitted to retake the exam

50. The relation-back doctrine in Tennessee lien law establishes the priority date for a mechanic's lien. To what event does the lien priority relate back?

- A. The date the mechanic's lien was recorded at the county register of deeds
- B. The commencement of the visible improvement on the property
- C. The date the construction contract was signed by both parties
- D. The date the building permit was issued by the local authority

Answer Key and Explanations

1. D. Licensing threshold — Tennessee requires a contractor license when the total project cost reaches \$25,000 or more. The total cost includes materials, labor, land, and profit. Because the original \$22,000 contract plus the \$4,500 change order brings the total to \$26,500, the contractor must hold a valid license.
2. B. Monetary limit calculation — The monetary limit equals ten times the lesser of net worth or working capital. Net worth is $\$820,000 - \$490,000 = \$330,000$. Working capital is $\$310,000 - \$195,000 = \$115,000$. The lesser value is \$115,000, so the limit is $\$115,000 \times 10 = \$1,150,000$.
3. C. Self-employment tax — Sole proprietors are not subject to Tennessee franchise and excise tax, and Tennessee does not impose a state income tax on wages or earned income. However, sole proprietors must pay federal self-employment tax of approximately 15.3% (12.4% Social Security + 2.9% Medicare) on net business earnings.
4. D. Specifications over drawings — Under standard contract interpretation rules, written specifications generally take precedence over graphical drawings when the two conflict. The contractor should follow the 42-inch dimension stated in the specifications and document the discrepancy with the architect.
5. B. Lien filing deadline — Tennessee law requires a mechanic's lien to be filed within 90 days of the last day the claimant furnished labor or materials. The subcontractor's last day of work was April 25, so the lien must be filed by July 24, which is 90 days from that date.
6. A. Drug-Free Workplace — To qualify for the 5% workers' compensation premium credit under Tennessee's Drug-Free Workplace Program, the employer must implement a comprehensive testing program that includes pre-employment, reasonable suspicion, post-accident, and random drug testing components.
7. B. Termination for convenience — When an owner terminates for convenience (no contractor breach), the contractor is entitled to payment for completed work, reimbursement of costs incurred, and profit earned on the completed portion. The contractor is not entitled to anticipated profit on the unperformed work.
8. A. Financial statement requirements — The monetary limit is ten times the lesser of net worth (\$450,000) or working capital (\$280,000). The lesser is \$280,000, yielding a limit of \$2,800,000. Because the limit does not exceed \$3,000,000, a reviewed financial statement is sufficient; audited statements are required only when the limit exceeds \$3,000,000.
9. C. Remote claimant notice — A material supplier without a direct contract with the property owner is a remote claimant. To preserve mechanic's lien rights, the remote claimant must send a Notice of Nonpayment to the prime contractor or owner within 90 days of the last date of furnishing labor or materials.
10. B. Public project remedies — Mechanic's liens cannot be filed against public property in Tennessee. On public projects, the subcontractor's remedy is to file a claim against the payment bond, which guarantees payment to subcontractors and material suppliers.
11. A. OSHA reporting — Hospitalizations, amputations, and losses of an eye must be reported to OSHA within 24 hours of the employer learning about the incident. Fatalities require

reporting within 8 hours. The employee's hospitalization triggers the 24-hour reporting requirement.

12. C. Electrical subcontractor licensing — A BC (building contractor) license excludes electrical, HVAC, and plumbing work exceeding \$25,000. Because the electrical subcontract is \$30,000, the electrical subcontractor must hold a separate valid Tennessee contractor license for that specialty.

13. D. Qualifying agent departure — Tennessee law requires the contractor to report a qualifying agent's departure to the Board within 10 days and designate a replacement within 90 days. From the September 1 departure, the report is due by September 11 and the replacement by November 30.

14. B. Change order procedure — Proper change order management requires the change to be documented in writing, signed by both parties (owner and contractor), and approved before the additional work begins. This change order followed all three requirements and was handled correctly.

15. C. Sales tax on materials — In Tennessee, the contractor is considered the end user of construction materials and must pay the full combined sales tax at the time of purchase. The combined state (7%) and local (2.75%) rate equals 9.75%, so $\$12,000 \times 9.75\% = \$1,170$.

16. A. Partnership taxation — General partnerships are exempt from Tennessee franchise and excise tax. Those taxes apply only to corporations, LLCs, and limited partnerships. However, the partnership is still subject to Tennessee business tax on its gross receipts.

17. A. Monetary limit scope — The Tennessee monetary limit applies to the total cost of a project, which includes materials, labor, land, and profit. There is no provision allowing a contractor to separate components. The \$800,000 project exceeds the \$750,000 limit, so the contractor cannot legally accept it.

18. D. Fatality reporting — OSHA requires employers to report a workplace fatality within 8 hours of the employer learning about the death. This is the most urgent OSHA reporting threshold, faster than the 24-hour requirement for hospitalizations, amputations, or eye losses.

19. A. Reciprocity — Georgia is one of the reciprocity states (Alabama, Arkansas, Georgia, Louisiana, Mississippi, North Carolina, Ohio, South Carolina). Reciprocity provides a waiver of the trade exam only. The Tennessee Business and Law exam is always required — no reciprocity agreement waives it.

20. C. Excavation protection — OSHA requires a protective system (sloping, shoring, or trench box) in excavations 5 feet or deeper unless the excavation is made entirely in stable rock. Type B soil is not stable rock, so the 6-foot trench requires a protective system.

21. D. Cost-plus risk allocation — In a cost-plus contract, the owner bears the risk of cost overruns because the owner pays all actual costs plus the agreed-upon fee percentage. The contractor's fee is $12\% \times \$380,000 = \$45,600$. The owner pays the full \$380,000 in costs plus the \$45,600 fee.

22. B. Masonry subcontractor licensing — Tennessee requires masonry subcontractors to hold a Limited Licensed Masonry Contractor (LMC) license when the value of the masonry work reaches \$100,000 or more. At \$115,000, this subcontractor exceeds that threshold.

23. C. Employment discrimination — Title VII applies to employers with 15 or more employees, so the 12-employee company is not covered. However, the Tennessee Human Rights Act (THRA) applies to employers with 8 or more employees and covers race-based discrimination claims.

24. A. Burdened labor rate — Base wage \$28.00 + FICA ($7.65\% \times \$28 = \2.14) + FUTA/SUTA ($3.2\% \times \$28 = \0.90) + workers' comp ($8.5\% \times \$28 = \2.38) + benefits (\$3.50) = \$36.92 per hour. The burdened rate includes all employer-paid costs associated with employment.

25. D. Unit-price risk — In a unit-price contract, the contractor bears the unit cost risk (cost to perform each unit of work), but the owner bears the quantity risk. When actual quantities exceed estimated quantities, the owner pays for the additional units at the agreed-upon unit price.

26. B. Franchise tax calculation — Franchise tax is \$0.25 per \$100 of the greater of net worth or tangible property in Tennessee, with a \$100 minimum. Net worth (\$250,000) is greater than tangible property (\$180,000), so the tax is $\$250,000 \div 100 \times \$0.25 = \$625$.

27. A. Roofing subcontractor licensing — Effective January 1, 2014, Tennessee law requires roofing subcontractors to hold a valid contractor license. This applies regardless of project type or value, making licensure mandatory for this subcontractor.

28. C. Unlimited license requirements — To qualify for an unlimited license classification in Tennessee, both the contractor's net worth and working capital must each exceed \$300,000. While the net worth of \$350,000 meets the requirement, the working capital of \$280,000 falls below the \$300,000 threshold.

29. D. Citation contest — A contractor must file a notice of contest within 15 working days of receiving an OSHA citation. If the contractor fails to contest within this period, the citation becomes a final order and is no longer subject to review.

30. B. Conditional waiver — A conditional lien waiver becomes effective only when payment is actually received. If the check bounces or payment fails, the condition has not been met, and the waiver is not effective. The claimant retains full lien rights in this situation.

31. C. Bid bonds — A bid bond is typically 5–10% of the bid amount. It guarantees that the contractor will enter into the contract and provide the required performance and payment bonds if awarded the bid. It does not guarantee project completion or payment to subcontractors.

32. A. Percentage of completion — Revenue = (costs to date \div total estimated costs) \times contract price = $(\$270,000 \div \$450,000) \times \$600,000 = 0.60 \times \$600,000 = \$360,000$. This method matches revenue recognition to the percentage of work completed.

33. D. FMLA eligibility — FMLA applies to employers with 50 or more employees within a 75-mile radius. The employee must have worked for the employer for at least 12 months. This employee meets all criteria: 55 employees in one location, 14 months of service, and care for a newborn is a qualifying event.

34. B. T&M contract risk — Time-and-materials contracts carry the highest cost risk for the owner because there is no cost ceiling. The contractor is reimbursed for actual time at agreed-

upon rates and actual materials at cost plus markup, with no guaranteed maximum price limiting the total.

35. A. OSHA 300A posting — OSHA Form 300A (Summary of Work-Related Injuries and Illnesses) must be posted in a visible location from February 1 through April 30 each year. Injury and illness records must be retained for 5 years following the year the records cover.

36. C. Lien enforcement — A mechanic's lien must be enforced by filing a lawsuit within 1 year of the date the lien was filed. If the lawsuit is not filed within this period, the lien expires and becomes unenforceable, and the claimant loses the secured interest in the property.

37. D. Business tax deduction — Tennessee allows contractors to deduct payments made to properly licensed subcontractors from gross receipts when calculating business tax. Payments to unlicensed subcontractors are not deductible, creating a financial incentive to verify subcontractor licensing.

38. A. Employment verification — I-9 forms are required for all employers regardless of size when hiring new employees. E-Verify is required in Tennessee for employers with 50 or more employees. With 60 employees, this contractor must comply with both the I-9 and E-Verify requirements.

39. B. Lump-sum risk — In a lump-sum (fixed-price) contract, the contractor bears the risk of cost fluctuations, including material price increases. The contract price is fixed, and the contractor must complete the work for the agreed amount regardless of changes in material or labor costs.

40. C. BC-A/r restrictions — The BC-A/r (restricted residential) classification carries specific limitations. Holders are restricted to residential projects under \$125,000, are prohibited from entering into joint ventures, and are not required to pass a trade exam (a community college course substitutes).

41. A. Bond indemnity — A surety bond is not insurance. When the surety pays a claim on behalf of the defaulting contractor, the contractor is obligated to reimburse the surety for the full amount paid. This indemnity obligation is a fundamental distinction between bonds and insurance policies.

42. D. Specialty license exams — Tennessee allows a contractor to hold up to five specialty license classifications under a single Business and Law exam. The contractor passes the Business and Law exam once and then takes separate trade exams for each specialty classification.

43. B. Profit calculation base — Profit in construction accounting should be calculated on the total cost, which includes both direct costs (\$180,000) and overhead costs (\$36,000), for a total of \$216,000. Calculating profit only on direct costs understates the true cost of the work.

44. A. Termination for cause — A valid termination for cause requires a material breach of the contract, written notice to the contractor identifying the specific breach, and a reasonable cure period for the contractor to remedy the deficiency. Without proper notice and opportunity to cure, the termination may be deemed wrongful.

45. D. Scaffolding requirements — OSHA requires scaffolding to be designed with a minimum 4:1 safety factor and supervised by a competent person who can identify hazards and has authority to take corrective action. A qualified person must design the scaffold system.

46. C. Force majeure — A force majeure clause typically entitles the affected party to a time extension for delays caused by unforeseeable events beyond the parties' control, such as severe weather. However, force majeure generally does not provide additional monetary compensation for the delay period.

47. B. GL insurance tiers — Tennessee requires minimum general liability insurance based on the contractor's monetary limit. For limits exceeding \$1,501,000, the minimum GL requirement is \$1,000,000. The contractor's \$1,800,000 limit falls in this highest tier.

48. C. Order of precedence — The standard order of precedence in construction contracts is: agreement → supplementary conditions → general conditions → specifications → drawings → addenda. This hierarchy determines which document controls when conflicting provisions exist.

49. D. Three-time failure — Tennessee requires a contractor who has failed the Business and Law exam three times to appear before the Board for an interview before being permitted to retake the exam. This interview requirement is designed to assess the applicant's readiness.

50. B. Relation-back doctrine — The relation-back doctrine establishes that a mechanic's lien priority dates back to the commencement of the visible improvement on the property, not to the date the lien was filed. This gives mechanic's liens priority over subsequent encumbrances recorded after work began.