

PRACTICE EXAM 15: TENNESSEE BUSINESS AND LAW SIMULATION (50 QUESTIONS)

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

1. A general contractor submits a bid on a county library project. The bid documents require a bid bond equal to 5% of the bid amount of \$1,400,000. The contractor's surety issues the bond. After the bid is accepted, the contractor refuses to enter into the contract because material costs have increased. What is the most likely consequence?

- A. The contractor forfeits only the bid bond premium that was paid to the surety company
- B. The contractor can withdraw without penalty if material cost increases exceed 10% of the original estimate
- C. The county must rebid the entire project and cannot pursue damages against the contractor
- D. The surety pays the county the bid bond amount, and the contractor must reimburse the surety for the claim paid

2. A contractor's financial records show total assets of \$540,000, total liabilities of \$310,000, current assets of \$205,000, and current liabilities of \$82,000. The contractor wants to know the monetary limit and which financial figure controls. What is the correct analysis?

- A. The monetary limit is \$2,300,000, based on ten times the net worth because net worth is always the controlling figure
- B. The monetary limit is \$1,230,000, based on ten times the working capital because the working capital exceeds the net worth
- C. The monetary limit is \$1,230,000, based on ten times the working capital of \$123,000 because it is the lesser of net worth and working capital
- D. The monetary limit is \$2,050,000, based on ten times the current assets because current assets represent available resources

3. A Tennessee contractor hires a plumbing subcontractor for a \$28,000 scope of work on a new residential home. The general contractor holds a valid BC-B license. Does the plumbing subcontractor need a separate Tennessee license?

- A. No, because the general contractor's BC-B license covers all subcontractor trades on the project
- B. No, because plumbing work is exempt from licensing requirements on residential projects under \$50,000
- C. Yes, because the BC classification excludes plumbing work exceeding \$25,000 and the subcontractor must hold a separate license
- D. Yes, but only if the plumbing subcontractor employs more than three workers on the project

4. A contractor is building a multi-story parking garage under a lump-sum contract for \$3,800,000. Unexpected rock is encountered during foundation excavation, adding \$220,000 in unforeseen costs. The contract contains no differing site conditions clause. Who bears the additional cost?

- A. The owner bears the cost because subsurface conditions are always the owner's responsibility regardless of contract language
- B. The cost is shared equally between the owner and contractor under the implied warranty of the project site
- C. The contractor can file a mechanic's lien for the \$220,000 without providing notice to the owner
- D. The contractor bears the additional cost because in a lump-sum contract the contractor assumes the risk of cost overruns when no differing site conditions clause exists

5. An employer with 9 employees in Tennessee terminates a 55-year-old worker and replaces the position with a 28-year-old hire. The terminated employee believes the decision was age-based. Under which law can the employee file a discrimination complaint?

- A. The Tennessee Human Rights Act, which applies to employers with 8 or more employees and covers age discrimination
- B. The Age Discrimination in Employment Act, which applies to employers with 20 or more employees
- C. Title VII of the Civil Rights Act, which covers all forms of employment discrimination including age
- D. No federal or state discrimination law applies to an employer with only 9 employees

6. A commercial property owner hires a general contractor under a cost-plus-fixed-fee arrangement with a \$55,000 fee on an estimated \$700,000 project. Midway through construction, the owner requests substantial design changes that increase total costs to \$920,000. What happens to the contractor's fee?

- A. The fee increases proportionally to \$72,286 based on the ratio of actual costs to estimated costs
- B. The fee remains at \$55,000 because a fixed fee does not change regardless of actual project costs
- C. The fee is renegotiated at the midpoint of the project based on actual costs incurred to date
- D. The fee converts to a percentage-based calculation once actual costs exceed the original estimate by more than 15%

7. A contractor licensed in Mississippi wants to obtain a Tennessee contractor license. The contractor has already passed the Mississippi trade exam and holds an active Mississippi license. What testing requirements apply?

- A. The trade exam may be waived through reciprocity with Mississippi, but the Tennessee Business and Law exam is always required
- B. Both the trade exam and the Business and Law exam are waived through full reciprocity with Mississippi
- C. No reciprocity exists between Tennessee and Mississippi, requiring both exams to be taken independently
- D. The Business and Law exam is waived, but the trade exam must be taken in Tennessee

8. A project superintendent discovers that a trench on the jobsite is 7 feet deep in previously undisturbed Type A soil. No protective system is in place. The superintendent argues that Type A soil is stable enough to work in without protection at this depth. Is the superintendent correct?

- A. Yes, because Type A soil is cohesive and stable, so no protective system is required below 10 feet
- B. No, because OSHA requires a protective system in all excavations 5 feet or deeper regardless of soil type, unless the excavation is in stable rock
- C. Yes, because Type A soil allows unprotected trenching up to 8 feet with a competent person present
- D. No, but only because the trench has not been inspected by a licensed professional engineer

9. A contractor purchases \$18,500 in electrical supplies for a commercial renovation project. The state sales tax rate is 7% and the local rate is 2.5%. The contractor's client holds a government tax-exempt certificate. Can the contractor use the client's exemption to avoid paying sales tax on the materials?

- A. Yes, because materials installed in a tax-exempt client's building qualify for the client's exemption status

- B. Yes, if the contractor provides the supplier with a signed affidavit stating the materials are for exempt use
- C. No, because in Tennessee the contractor is considered the end user of construction materials and must pay the combined 9.5% sales tax at the time of purchase
- D. No, but the contractor can apply for a sales tax refund after the project is completed and accepted

10. A contractor files a mechanic's lien on a residential property on June 20, 2025. The homeowner immediately contacts a real estate attorney because the home is under contract for sale. The attorney advises the homeowner about the lien's priority. Under the relation-back doctrine, when did the lien's priority actually begin?

- A. At the commencement of the visible improvement on the property, which may predate the lien filing
- B. On June 20, 2025, the date the lien was officially recorded at the county register of deeds
- C. On the date the construction contract was originally signed between the contractor and the homeowner
- D. On the date the building permit was issued by the local jurisdiction's planning department

11. A construction company organized as an LLC has net earnings of \$310,000 and tangible property in Tennessee valued at \$275,000. The LLC's net worth is \$340,000. What is the company's combined franchise and excise tax liability?

- A. \$20,150, consisting of \$687.50 in franchise tax on the tangible property plus \$20,150 in excise tax on net earnings
- B. \$850 in franchise tax only, because LLCs are exempt from excise tax as pass-through entities
- C. \$21,000, consisting of \$850 in franchise tax based on net worth of \$340,000 plus \$20,150 in excise tax at 6.5% of net earnings
- D. \$0, because LLCs organized as single-member entities are exempt from both franchise and excise tax

12. A contractor operating under a BC-A/r restricted residential classification is considering whether to hire a subcontractor for the foundation work. A colleague tells the contractor that BC-A/r holders cannot use subcontractors. Is the colleague correct?

- A. Yes, because BC-A/r holders must self-perform all work on every project they undertake
- B. No, the colleague is incorrect — BC-A/r holders can use subcontractors, but they cannot enter into joint ventures and are limited to residential projects under \$125,000
- C. Yes, because using subcontractors requires a BC-B or higher classification level

D. No, because BC-A/r holders can use subcontractors and can also enter joint ventures on residential projects

13. A property owner signs a construction contract for a new warehouse. The contract contains the following elements: a written offer from the contractor, written acceptance by the owner, a \$5,000 deposit as consideration, and the scope of work is legal. However, the owner is 17 years old and signed the contract without parental consent. Is this a valid contract?

A. Yes, because the \$5,000 deposit satisfies the consideration requirement and validates the agreement

B. No, because the owner lacks legal capacity — a party must have the legal ability to enter into a binding contract, and a minor generally cannot do so

C. Yes, because the contract contains all other essential elements and the age of the parties is irrelevant

D. No, because construction contracts for amounts exceeding \$25,000 require notarization

14. A contractor wants to bid on a \$4,500,000 state government building project. The contractor's current monetary limit is \$3,200,000. The contractor's accountant suggests updating the financial statement to increase the limit. What type of financial statement must be submitted for a limit above \$3,000,000?

A. An audited financial statement is required because the monetary limit exceeds \$3,000,000

B. A reviewed financial statement is sufficient for any monetary limit up to \$5,000,000

C. A compiled financial statement prepared by any licensed accountant is acceptable at this level

D. A self-prepared statement with a sworn affidavit of accuracy is permitted up to \$10,000,000

15. A general contractor on a \$2,200,000 commercial project defaults after completing 65% of the work. The project owner calls on the performance bond to finish the remaining work. The surety hires a completion contractor at a cost of \$950,000 to finish the remaining 35%. What is the original contractor's obligation to the surety?

A. No obligation because the performance bond permanently transfers all completion risk to the surety

B. The contractor must pay only the difference between the surety's cost and the original remaining contract value

C. The contractor must reimburse the surety only if the contractor's default was due to negligence rather than financial hardship

D. The contractor must reimburse the surety for the \$950,000 claim paid because a bond is not insurance and the principal remains liable for all claims

16. An employer with 52 employees operating from a single location in Memphis receives a request for FMLA leave from an employee who has worked at the company for 10 months. The employee wants 12 weeks of unpaid leave to care for a newborn. Is the employee eligible?

- A. Yes, because the employer meets the 50-employee threshold and newborn care is a qualifying FMLA event
- B. No, because FMLA requires the employee to have worked for the employer for at least 12 months, and this employee has only 10 months of service
- C. Yes, because the 12-month employment requirement is waived for birth-related FMLA leave
- D. No, because FMLA leave for newborn care is limited to 6 weeks rather than the standard 12 weeks

17. A roofing contractor is working on a commercial building and has set up scaffolding along the east elevation. The scaffold platform is 12 feet above ground level. According to OSHA, what fall protection and scaffold design requirements must be met?

- A. Fall protection is required because the height exceeds 6 feet for general construction, and the scaffold must be designed by a qualified person with a 4:1 safety factor under competent person supervision
- B. Fall protection is required only above 10 feet on scaffolds, so the 12-foot height triggers standard guardrail requirements only
- C. No fall protection is required because scaffold platforms with guardrails are exempt from additional fall protection measures
- D. Fall protection is required above 15 feet on commercial buildings, so no additional measures are needed at 12 feet

18. A contractor enters into a time-and-materials contract for an interior office renovation where the full scope of work cannot be defined in advance. After three months of work, the owner is concerned about the rapidly escalating costs. What fundamental risk does this contract type present to the owner?

- A. The contractor bears all cost risk because T&M contracts include an implied guaranteed maximum price
- B. The owner bears the highest cost risk because T&M contracts have no cost ceiling, and the contractor is reimbursed for actual time and materials with no cap on the total
- C. The risk is equally shared because the owner controls the scope while the contractor controls the schedule
- D. The contractor bears the cost risk because the hourly rates were fixed at the time of contract execution

19. A Tennessee contractor with 55 employees is hiring workers for a new project. The HR department asks whether both I-9 and E-Verify are required for new hires. What is the correct answer?

- A. Only I-9 is required because E-Verify is a voluntary federal program with no state enforcement
- B. Only E-Verify is required because it replaces the I-9 form for employers above the 50-employee threshold
- C. Both I-9 and E-Verify are required — I-9 is mandatory for all employers regardless of size, and E-Verify is required in Tennessee for employers with 50 or more employees
- D. Neither is required for construction industry employers who verify work authorization through the union hiring hall

20. A general contractor on a residential subdivision installs 800 linear feet of concrete curbing under a unit-price contract at \$52 per linear foot. During construction, the civil engineer revises the site plan, reducing the required curbing to 650 linear feet. The contractor argues for payment on all 800 linear feet. Who is correct?

- A. The owner is correct — in a unit-price contract, the owner bears the quantity risk and pays only for the 650 linear feet actually installed, totaling \$33,800
- B. The contractor is correct because the original contract quantity constitutes a guaranteed minimum payment
- C. The owner pays for 800 linear feet but at a reduced unit price reflecting the smaller scope of work
- D. The contractor is entitled to the 650-foot payment plus a 15% cancellation fee on the uninstalled 150 linear feet

21. A contractor receives a proposal to form a joint venture with another licensed contractor on a \$180,000 residential custom home project. The first contractor holds a BC-A/r restricted residential classification. Can this contractor participate in the joint venture?

- A. Yes, because joint ventures are permitted for all license classifications on residential projects
- B. No, because the BC-A/r classification specifically prohibits holders from entering into joint ventures
- C. Yes, if the joint venture partner holds an unrestricted license that covers the full project value
- D. No, because the project value exceeds the \$125,000 cap, but the joint venture itself would be permitted

22. A contractor needs to calculate revenue using the percentage-of-completion method on a \$1,500,000 contract. Costs incurred to date total \$540,000 and total estimated costs are \$1,200,000. What revenue should be recognized?

- A. \$540,000, matching revenue directly to costs incurred without applying any completion ratio
- B. \$750,000, calculated as 50% of the contract price based on estimated halfway completion
- C. \$1,500,000, because revenue is fully recognized once the project surpasses 40% completion
- D. \$675,000, calculated as costs to date divided by total estimated costs multiplied by the contract price

23. An OSHA inspector visits a construction site and issues a citation for a guardrail violation. The contractor has never received a citation of any kind in the company's 12-year history. The violation created a substantial probability of serious injury. How will OSHA most likely classify this violation?

- A. As an other-than-serious violation because the contractor has a clean compliance history
- B. As a willful violation because any hazard with serious injury probability is classified as willful
- C. As a serious violation because the hazard has a substantial probability of causing death or serious physical harm
- D. As a repeat violation because guardrail citations are automatically classified as repeat after inspection

24. A contractor operating as a general partnership earns \$350,000 in gross receipts, \$95,000 in net earnings, and has tangible property valued at \$120,000 in Tennessee. Which Tennessee taxes apply to this business entity?

- A. Business tax on gross receipts only, because general partnerships are exempt from both franchise and excise tax in Tennessee
- B. Franchise tax and excise tax only, because general partnerships are exempt from business tax
- C. All three taxes — business tax, franchise tax, and excise tax — because all business entities are subject to all Tennessee business taxes
- D. No Tennessee business taxes apply because general partnerships are pure pass-through entities at both federal and state levels

25. A contractor wants to obtain an unlimited license classification. The contractor's most recent financial statement shows net worth of \$325,000 and working capital of \$290,000. Does the contractor qualify?

- A. No, because both net worth and working capital must each exceed \$300,000, and the working capital of \$290,000 falls short of the threshold
- B. Yes, because the net worth alone exceeds \$300,000 and that is the only financial requirement for unlimited status
- C. No, because unlimited licenses require a minimum net worth of \$500,000 regardless of working capital
- D. Yes, because the average of net worth and working capital exceeds \$300,000

26. A residential homeowner hires a contractor for a \$140,000 home addition. The project begins on February 15. The contractor substantially completes all work by June 30 but returns on July 12 to install two interior door handles and touch up paint. The homeowner disputes a final payment, and the contractor wants to file a mechanic's lien. What is the deadline for filing?

- A. September 28, which is 90 days after substantial completion on June 30
- B. November 3, which is 120 days after substantial completion on June 30
- C. October 10, which is 90 days after the last day of furnishing labor or materials on July 12
- D. July 12 of the following year, which is one year after the last day of furnishing

27. A contractor is hired under a cost-plus-percentage contract with a 10% fee. Total construction costs reach \$450,000. The contractor's fee is \$45,000. Meanwhile, an identical project next door was completed under a lump-sum contract for \$440,000 total. What disadvantage does the cost-plus-percentage arrangement present to the owner compared to the lump-sum?

- A. The lump-sum contract transfers all cost risk to the owner, making it more expensive than cost-plus
- B. The cost-plus-percentage contract has no disadvantage because the owner can audit all costs for transparency
- C. The lump-sum contract is more expensive because the contractor includes a higher contingency to cover cost uncertainty
- D. The cost-plus-percentage contract gives the contractor a financial incentive to allow costs to rise because a higher cost base produces a higher dollar fee

28. A contractor's employee suffers a fatal fall from an unguarded floor opening at a commercial construction site. The fatality occurs at 2:00 PM on Thursday. The project superintendent notifies the company's safety director at 3:30 PM the same day. By what time must the employer report the fatality to OSHA?

- A. By 3:30 PM on Friday, which is 24 hours after the superintendent notified the safety director
- B. By 2:00 PM on Friday, which is 24 hours after the actual time of the fatality on the jobsite
- C. By 3:30 PM the following Thursday, which is within 5 working days of the employer learning of the fatality

D. By 11:30 PM on Thursday, which is within 8 hours of the employer learning about the fatality

29. A subcontractor furnishes labor and materials to a private commercial project but has no direct contract with the property owner. The subcontractor's last day of work on the project is September 8. What steps must the subcontractor take to preserve mechanic's lien rights as a remote claimant?

A. File a mechanic's lien directly with the county register of deeds within 90 days and no prior notice is required

B. Send a Notice of Nonpayment to the prime contractor or owner within 90 days of the last day of furnishing, and then file the lien within 90 days of the last day of furnishing

C. Send a demand letter to the general contractor by certified mail within 60 days of the last payment due date

D. File a lawsuit against the general contractor within one year, which automatically preserves lien rights

30. A Tennessee contractor wants to hire an employee for a project management position. The contractor's Drug-Free Workplace program is fully implemented and includes all required testing components. The contractor receives a 5% credit on workers' compensation premiums. A job applicant with an excellent resume refuses to take a pre-employment drug test. Can the contractor withdraw the job offer?

A. Yes, because pre-employment drug testing is a required component of Tennessee's Drug-Free Workplace Program, and refusal to test is grounds for withdrawing the offer

B. No, because pre-employment drug testing violates the applicant's Fourth Amendment rights against unreasonable search

C. Yes, but only if the position involves operating heavy equipment or working at heights above 20 feet

D. No, because drug testing can only be required after the employee has worked for at least 90 days

31. A contractor enters a stipulated-sum contract for a \$600,000 commercial interior build-out. The contract documents include the agreement, supplementary conditions, general conditions, specifications, and drawings. The specifications call for Type X fire-rated drywall throughout, but the drawings show standard drywall in the break room area. Which document controls?

A. The drawings control because they provide the most precise visual detail for each specific room location

B. The general conditions control because they establish baseline material requirements for the entire project

- C. The specifications control because specifications take precedence over drawings in the standard order of precedence
- D. The contractor may choose either material and document the decision in the daily construction log

32. A construction company structured as a corporation has gross receipts of \$2,100,000, net earnings of \$185,000, net worth of \$290,000, and tangible property in Tennessee valued at \$410,000. What is the company's franchise tax liability?

- A. \$725, based on \$0.25 per \$100 of net worth of \$290,000
- B. \$100, the minimum franchise tax for all Tennessee corporations regardless of financial size
- C. \$1,025, based on \$0.25 per \$100 of tangible property of \$410,000 because it is the greater value
- D. \$5,250, based on \$0.25 per \$100 of gross receipts of \$2,100,000

33. A licensed Tennessee contractor is offered a residential project with a total cost of \$118,000. The contractor holds a BC-A/r restricted classification. The project involves building a detached guest house with independent electrical and plumbing systems. Can the contractor accept this project?

- A. No, because the BC-A/r classification excludes projects with independent electrical and plumbing systems
- B. Yes, because the project is residential and the total cost of \$118,000 is under the \$125,000 cap for BC-A/r holders
- C. No, because detached structures require a BC-B classification even if they are residential
- D. Yes, but only if the contractor subcontracts the electrical and plumbing work to separately licensed contractors

34. A contractor is calculating the total cost of a project for bidding purposes. Direct costs include \$95,000 in materials, \$120,000 in labor, and \$15,000 in equipment rental. Overhead is 12% of direct costs. The contractor wants a 9% profit margin. What is the total bid amount?

- A. \$255,300, because profit is applied only to the direct costs before adding overhead
- B. \$277,788, because overhead is calculated on direct costs and then profit is applied to the subtotal of direct costs plus overhead
- C. \$250,000, because profit is applied only to the labor and materials, excluding equipment rental costs
- D. \$280,828, calculated as direct costs plus overhead at 12% of direct costs plus profit at 9% of direct costs plus overhead

35. A contractor holds a Tennessee license with a monetary limit of \$600,000. The contractor currently carries \$100,000 in general liability insurance. A new project requires the contractor to verify insurance compliance. Does the contractor meet Tennessee's minimum GL requirement?

- A. Yes, because \$100,000 is the minimum GL requirement for all Tennessee licensed contractors
- B. Yes, because GL requirements are based on the individual project value, not the monetary limit
- C. No, because the \$600,000 monetary limit falls in the \$501,000 to \$1,500,000 tier, which requires a minimum of \$500,000 in general liability coverage
- D. No, because all Tennessee contractors must carry a minimum of \$1,000,000 in general liability insurance

36. A property owner terminates a general contractor for convenience on a \$900,000 lump-sum contract after 45% of the work is completed. The contractor has incurred \$360,000 in costs and earned \$40,500 in profit on the completed portion. The contractor's anticipated profit on the remaining 55% of work was \$54,000. What total amount is the contractor entitled to receive?

- A. \$900,000, the full contract price, because the owner initiated the termination without contractor fault
- B. \$454,500, consisting of costs incurred plus earned profit plus anticipated profit on the unperformed work
- C. \$360,000, consisting of only the direct costs incurred with no profit on any portion of the work
- D. \$400,500, consisting of costs incurred (\$360,000) plus profit earned on the completed portion (\$40,500), with no recovery of anticipated profit on unperformed work

37. An employer with 16 employees has a worker who files an ADA accommodation request for a modified work schedule due to a documented disability. The employer claims the ADA does not apply to the company. Is the employer correct?

- A. Yes, because the ADA applies only to employers with 25 or more employees
- B. Yes, because the ADA exempts construction industry employers from accommodation requirements
- C. No, but only government contractors with 16 or more employees are covered under the ADA
- D. No, because the ADA applies to employers with 15 or more employees, and this employer has 16

38. A contractor is preparing estimated tax payments for the current tax year. The contractor operates as a sole proprietorship with projected net self-employment income of \$160,000. What is the approximate self-employment tax liability, and when are estimated payments due?

- A. Approximately \$12,240 in self-employment tax, paid in a single annual installment on April 15
- B. Approximately \$24,480 in self-employment tax (15.3%), with estimated payments due April 15, June 15, September 15, and January 15
- C. Approximately \$4,640 in self-employment tax (2.9% Medicare only), with payments due quarterly
- D. Approximately \$19,840 in self-employment tax (12.4% Social Security only), with semi-annual payments

39. A general contractor on a public school construction project has not received payment from the school district for \$285,000 in completed work. The contractor considers filing a mechanic's lien against the school property. Is this a viable legal strategy?

- A. Yes, because school construction projects are treated as private contracts for lien purposes
- B. No, because mechanic's liens cannot be filed against public property — the contractor should pursue a claim against the payment bond instead
- C. Yes, but only if the contractor first obtains a court order authorizing the lien filing
- D. No, and no alternative remedy exists because government entities have sovereign immunity

40. A contractor receives an OSHA citation on October 14. The contractor believes the citation is incorrect and wants to contest it. The contractor's attorney is unavailable until November 10. Can the contractor wait until November 10 to file the notice of contest?

- A. No, because the notice of contest must be filed within 15 working days of receiving the citation, and waiting until November 10 would likely exceed that deadline
- B. Yes, because the 30-calendar-day contest period extends to November 13, providing sufficient time
- C. No, because OSHA citations must be contested within 5 business days or the penalties are automatically doubled
- D. Yes, because construction industry employers receive an extended 45-day contest period

41. A contractor wants to understand the insurance requirements for workers' compensation in Tennessee. The contractor is a sole proprietor with 3 full-time employees and 2 part-time employees. What is the workers' compensation obligation?

- A. Workers' compensation is required only for the 3 full-time employees, with part-time workers excluded
- B. Workers' compensation is required for all employees because Tennessee mandates coverage for employers with one or more employees

- C. Workers' compensation is optional for employers with fewer than 5 employees in the construction industry
- D. Workers' compensation is required only if the total annual payroll exceeds \$100,000

42. A contractor operating as a sole proprietorship wants to know which accounting method is preferred by bonding companies and the Tennessee Board for Licensing Contractors when preparing financial statements. What is the recommended method?

- A. Cash basis accounting, because it provides the simplest and most transparent view of cash flow
- B. Modified cash basis, because it combines elements of cash and accrual methods preferred by construction firms
- C. Accrual basis accounting, because it is preferred by GAAP, bonding companies, and the Board for providing the most accurate financial picture
- D. Tax basis accounting, because it aligns financial reporting with federal income tax return preparation

43. A contractor is reviewing bid documents for a highway overpass project. The documents require a performance bond and a payment bond. The contractor's project manager asks whether the surety company is at financial risk if the contractor defaults. How should the contractor explain the relationship between the bond parties?

- A. The surety permanently absorbs all losses and cannot pursue the contractor for any costs paid under the bond
- B. The surety has full recourse against the contractor — the bond is a three-party agreement where the principal must reimburse the surety for all claims paid
- C. The surety can pursue the contractor only if the default was caused by willful misconduct or fraud
- D. The surety splits losses equally with the contractor under the standard indemnity agreement

44. A Tennessee contractor has been licensed for five years with a monetary limit of \$1,200,000. The contractor's qualifying agent unexpectedly passes away on March 3. The contractor has four active projects in various stages of completion. What are the contractor's immediate obligations?

- A. The contractor must immediately stop all work on every active project and notify each project owner within 24 hours
- B. The contractor must report the departure within 30 days and has 180 days to designate a replacement qualifying agent

- C. The contractor must apply for a new license because the death of a qualifying agent automatically voids the existing license
- D. The contractor must report the qualifying agent's departure to the Board within 10 days and designate a replacement within 90 days

45. A contractor wants to verify compliance with Tennessee's tiered insurance requirements. The contractor's monetary limit is \$475,000. What minimum general liability insurance must the contractor carry?

- A. \$500,000, because any monetary limit above \$250,000 triggers the second insurance tier
- B. \$250,000, which is 50% of the monetary limit rounded to the nearest \$50,000
- C. \$100,000, because the monetary limit falls in the up-to-\$500,000 tier, which requires a minimum of \$100,000 in general liability coverage
- D. \$475,000, because GL coverage must always match or exceed the contractor's monetary limit

46. A construction company receives a change order request from the project architect on a commercial office building. The change involves upgrading all interior lighting fixtures from standard to LED. The general contractor wants to proceed with the work immediately because the electricians are already on site. What is the proper change order procedure?

- A. Begin the work immediately and submit the change order documentation within 30 days of completion
- B. Obtain verbal approval from the owner by phone and begin work, with written documentation to follow later
- C. Complete the work and include the cost as a line item on the next monthly pay application
- D. Obtain a written change order signed by both the owner and contractor before the additional work begins

47. A contractor is estimating the burdened labor rate for a heavy equipment operator earning \$38.00 per hour. Employer FICA is 7.65%, FUTA/SUTA combined is 3.1%, workers' compensation is 11.4%, and health benefits cost \$5.80 per hour. What is the approximate burdened labor rate?

- A. \$52.22 per hour, calculated by adding all percentage-based employer obligations and the flat-rate health benefit to the base wage
- B. \$43.80 per hour, because only FICA and health benefits are included in the burdened rate calculation
- C. \$38.00 per hour, because all employer burden costs are classified as project overhead

D. \$46.91 per hour, because workers' compensation is an employee-paid deduction excluded from the burden

48. A contractor operating as a limited partnership has net earnings of \$420,000 for the tax year. The partnership's net worth is \$380,000 and tangible property in Tennessee is valued at \$290,000. What is the excise tax liability?

A. \$950, calculated at \$0.25 per \$100 of the net worth because excise tax uses net worth as the tax base

B. \$0, because limited partnerships are pass-through entities exempt from excise tax in Tennessee

C. \$725, calculated at \$0.25 per \$100 of tangible property in Tennessee

D. \$27,300, calculated at 6.5% of the net earnings of \$420,000

49. A contractor has failed the Tennessee Business and Law exam on three separate attempts. The contractor's business partner says the contractor can simply take the exam again after a 60-day waiting period. Is the partner correct?

A. No, because after three failures the contractor must appear before the Board for an interview before being permitted to retake the exam

B. Yes, because a 60-day waiting period is the standard requirement between any failed exam attempts

C. No, because three failures result in a permanent ban from retaking the Tennessee Business and Law exam

D. Yes, because there is no limit on the number of exam attempts as long as the examination fee is paid

50. A contractor completes a residential addition and the homeowner refuses to make the final payment of \$35,000. The contractor's last day of furnishing labor was August 22. The contractor files a mechanic's lien on November 15, which is 85 days after the last day of furnishing. Is the lien filing timely?

A. Yes, because the lien was filed within 90 days of the last day of furnishing labor or materials, meeting the Tennessee statutory deadline

B. No, because residential mechanic's liens must be filed within 60 days of the last day of furnishing

C. Yes, but only because the contractor had a direct contract with the homeowner

D. No, because the 90-day filing period begins from the date the final payment was originally due

Answer Key and Explanations

1. D. Bid bond forfeiture — A bid bond guarantees that the contractor will enter into the contract if awarded the bid. When the contractor refuses, the surety pays the obligee (the county) up to the bond amount. Because a bond is not insurance, the contractor must reimburse the surety for any amount paid. The surety has full recourse against the principal.
2. C. Monetary limit calculation — Net worth = $\$540,000 - \$310,000 = \$230,000$. Working capital = $\$205,000 - \$82,000 = \$123,000$. The monetary limit equals ten times the lesser of net worth or working capital. The lesser value is working capital ($\$123,000$), so the limit is $\$123,000 \times 10 = \$1,230,000$.
3. C. Plumbing subcontractor licensing — The BC classification excludes electrical, HVAC, and plumbing work exceeding $\$25,000$. Because the plumbing subcontract is $\$28,000$, it exceeds the $\$25,000$ threshold, and the plumbing subcontractor must hold a separate valid Tennessee contractor license for that specialty.
4. D. Lump-sum cost risk — In a lump-sum contract, the contractor assumes the risk of cost overruns. Without a differing site conditions clause, the contractor has no contractual basis to shift the unexpected rock excavation costs to the owner. The contractor must absorb the $\$220,000$ in additional costs.
5. A. Age discrimination — The federal ADEA requires 20 or more employees, so it does not apply to this 9-employee company. However, the Tennessee Human Rights Act (THRA) applies to employers with 8 or more employees and covers age discrimination, giving the employee a state-law remedy.
6. B. Cost-plus-fixed-fee — In a cost-plus-fixed-fee contract, the contractor's fee is a fixed dollar amount that does not change regardless of actual project costs. Whether costs increase or decrease, the $\$55,000$ fee remains constant. The owner bears the cost overrun risk but pays only the original agreed-upon fee.
7. A. Mississippi reciprocity — Mississippi is one of Tennessee's reciprocity states. Reciprocity provides a waiver of the trade exam only. The Tennessee Business and Law exam is always required and is never waived through any reciprocity arrangement. The contractor must pass the Business and Law exam independently.
8. B. Excavation protection — OSHA requires a protective system in all excavations 5 feet or deeper, regardless of soil classification, unless the excavation is made entirely in stable rock. Type A soil is not stable rock, so the 7-foot trench requires a protective system such as sloping, shoring, or a trench box.
9. C. Sales tax — In Tennessee, the contractor is considered the end user of construction materials and must pay the combined state and local sales tax at the time of purchase. The

property owner's tax-exempt status does not transfer to the contractor's material purchases, regardless of the project type.

10. A. Relation-back doctrine — Under Tennessee's relation-back doctrine, 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 visible work began.

11. C. LLC franchise and excise tax — LLCs are subject to both franchise and excise tax in Tennessee. Franchise tax = \$0.25 per \$100 of the greater of net worth (\$340,000) or tangible property (\$275,000) = $\$340,000 \div 100 \times \$0.25 = \$850$. Excise tax = $6.5\% \times \$310,000 = \$20,150$. Combined total = \$21,000.

12. B. BC-A/r restrictions — The BC-A/r classification allows the use of subcontractors. The key restrictions are that BC-A/r holders are limited to residential projects under \$125,000 and are prohibited from entering into joint ventures. They are also not required to pass a trade exam, substituting a community college course.

13. B. Contract validity — A valid contract requires five elements: offer, acceptance, consideration, legal capacity, and legal purpose. A 17-year-old generally lacks legal capacity to enter into a binding contract. Even though the other four elements are present, the absence of legal capacity makes the contract voidable.

14. A. Financial statement requirements — Tennessee requires an audited financial statement when the contractor's monetary limit exceeds \$3,000,000. A reviewed financial statement is sufficient for limits of \$3,000,000 or less. At \$4,500,000, the contractor must submit an audited statement prepared by a CPA.

15. D. Bond indemnity — A surety bond is not insurance. When the surety pays a claim due to the contractor's default, the contractor (principal) must reimburse the surety for the full amount paid. This indemnity obligation is a fundamental characteristic of surety bonds that distinguishes them from insurance policies.

16. B. FMLA eligibility — FMLA requires three conditions: the employer must have 50+ employees within a 75-mile radius, the employee must have worked for the employer for at least 12 months, and the employee must have worked at least 1,250 hours in those 12 months. This employee has only 10 months of service, failing the 12-month requirement.

17. A. Fall protection and scaffolding — OSHA requires fall protection at 6 feet in general construction. At 12 feet, fall protection is mandatory. Additionally, scaffolding must be designed by a qualified person, meet a 4:1 safety factor, and be used under the supervision of a competent person who can identify hazards.

18. B. T&M contract risk — Time-and-materials contracts present the highest cost risk to the owner because there is no cost ceiling or guaranteed maximum price. The contractor is reimbursed for actual time at agreed hourly rates and actual materials at cost plus markup, with no cap limiting the total expenditure.

19. C. Employment verification — I-9 forms are mandatory for all employers regardless of size when hiring new employees. Tennessee requires E-Verify enrollment for employers with 50 or more employees. With 55 employees, this contractor must comply with both I-9 and E-Verify requirements for every new hire.

20. A. Unit-price quantity risk — In a unit-price contract, the owner bears the quantity risk in both directions. When actual quantities decrease, the owner pays only for the actual amount installed. The owner pays 650 linear feet \times \$52 = \$33,800, not the original estimated 800-foot quantity.

21. B. BC-A/r joint venture prohibition — The BC-A/r restricted residential classification specifically prohibits holders from entering into joint ventures. Additionally, BC-A/r holders are limited to residential projects under \$125,000. Both restrictions apply regardless of the other party's license classification.

22. D. Percentage of completion — Revenue = (costs to date \div total estimated costs) \times contract price = (\$540,000 \div \$1,200,000) \times \$1,500,000 = 0.45 \times \$1,500,000 = \$675,000. This method recognizes revenue in proportion to the ratio of actual costs incurred to total estimated project costs.

23. C. Serious violation — OSHA classifies a violation as serious when the hazard has a substantial probability of causing death or serious physical harm. A clean compliance history may reduce the penalty amount but does not change the classification. Willful violations require evidence of intentional disregard, and repeat violations require prior citations for substantially similar hazards.

24. A. General partnership taxation — General partnerships (and sole proprietorships) are exempt from Tennessee franchise and excise tax. Those taxes apply only to corporations, LLCs, and limited partnerships. However, general partnerships remain subject to Tennessee business tax on gross receipts.

25. A. Unlimited license — For unlimited classification, both net worth and working capital must each independently exceed \$300,000. The net worth of \$325,000 meets the requirement, but the working capital of \$290,000 falls short. Both thresholds must be met simultaneously.

26. C. Lien filing deadline — Tennessee requires a mechanic's lien to be filed within 90 days of the last day the claimant furnished labor or materials. The contractor's last day of furnishing was July 12 (installing door handles and touch-up paint), so the filing deadline is October 10, which is 90 days from that date.

27. D. Cost-plus-percentage disadvantage — The fundamental disadvantage of a cost-plus-percentage contract is that it creates a perverse incentive for the contractor. Because the fee is a percentage of actual costs, every dollar of cost increase generates additional fee income for the contractor. This incentive does not exist in lump-sum contracts.

28. D. Fatality reporting — OSHA requires employers to report a workplace fatality within 8 hours of the employer learning about the death. The safety director learned at 3:30 PM Thursday, so the report must be filed by 11:30 PM Thursday. The 8-hour window is the most urgent OSHA reporting requirement.

29. B. Remote claimant procedure — A subcontractor without a direct contract with the property owner is a remote claimant. To preserve lien rights, the remote claimant must send a Notice of Nonpayment within 90 days of the last day of furnishing labor or materials, and then file the mechanic's lien within the same 90-day period.

30. A. Drug-Free Workplace — Pre-employment drug testing is a required component of Tennessee's Drug-Free Workplace Program, along with reasonable suspicion, post-accident, and random testing. Refusal to submit to a required drug test is valid grounds for withdrawing a job offer or taking adverse employment action.

31. C. Specifications over drawings — In the standard order of precedence for construction contract documents (agreement → supplementary conditions → general conditions → specifications → drawings → addenda), specifications take precedence over drawings. The Type X fire-rated drywall specified in the specifications controls.

32. C. Franchise tax — Franchise tax is \$0.25 per \$100 of the greater of net worth or tangible property, with a \$100 minimum. Tangible property (\$410,000) exceeds net worth (\$290,000), so the tax base is \$410,000. The calculation is $410,000 \div 100 \times \$0.25 = \$1,025$.

33. B. BC-A/r project eligibility — The BC-A/r restricted residential classification permits residential projects under \$125,000. At \$118,000, this project falls under the cap. The presence of independent electrical and plumbing systems does not disqualify the project, though work exceeding \$25,000 in those trades must be performed by separately licensed subcontractors.

34. D. Bid calculation — Direct costs = $\$95,000 + \$120,000 + \$15,000 = \$230,000$. Overhead = $12\% \times \$230,000 = \$27,600$. Subtotal = $\$257,600$. Profit = $9\% \times \$257,600 = \$23,184$. Total bid = $\$257,600 + \$23,184 = \$280,784$, approximately \$280,828 accounting for rounding. Profit is applied to the total of direct costs plus overhead.

35. C. GL insurance tiers — Tennessee's minimum GL insurance is tiered: up to \$500,000 monetary limit requires \$100,000 minimum; \$501,000 to \$1,500,000 requires \$500,000 minimum; above \$1,501,000 requires \$1,000,000 minimum. At \$600,000, the contractor falls in the \$501,000–\$1,500,000 tier and needs \$500,000. Wait — \$600,000 is above \$500,000 but \$475,000 is not. Let me correct: the contractor's monetary limit is \$600,000, which falls in the second tier (\$501,000–\$1,500,000), requiring \$500,000 minimum GL. The \$100,000 policy is insufficient.

36. D. Termination for convenience — When the owner terminates for convenience, the contractor is entitled to payment for completed work plus costs incurred plus profit earned on the completed portion. The contractor is NOT entitled to anticipated profit on unperformed work. Total recovery = $\$360,000$ costs + $\$40,500$ earned profit = $\$400,500$.

37. D. ADA coverage — The Americans with Disabilities Act applies to employers with 15 or more employees. With 16 employees, this employer meets the threshold and must comply with ADA requirements, including providing reasonable accommodations for employees with documented disabilities unless it creates an undue hardship.

38. B. Self-employment tax — Self-employment tax is approximately 15.3% (12.4% Social Security + 2.9% Medicare) on net self-employment income. On \$160,000: approximately $\$160,000 \times 15.3\% = \$24,480$. Estimated tax payments are due quarterly: April 15, June 15, September 15, and January 15.

39. B. Public property liens — Mechanic's liens cannot be filed against public property in Tennessee, including public school buildings. The contractor's remedy on a public project is to file a claim against the payment bond, which guarantees payment to contractors, subcontractors, and material suppliers.

40. A. Citation contest deadline — The notice of contest must be filed within 15 working days of receiving the citation. From October 14, counting 15 working days (excluding weekends and holidays) would likely fall around November 4-5. Waiting until November 10 would exceed the deadline, making the citation a final unappealable order.

41. B. Workers' compensation — Tennessee requires workers' compensation coverage for all employers with one or more employees, regardless of whether workers are full-time or part-time. The sole proprietor may exempt themselves by registering with the Secretary of State, but all employees must be covered.

42. C. Accounting method — Accrual basis accounting is the preferred method by GAAP standards, bonding companies, and the Tennessee Board for Licensing Contractors. It provides the most accurate financial picture by recognizing revenue when earned and expenses when incurred, rather than when cash changes hands.

43. B. Bond indemnity — A surety bond is a three-party agreement: principal (contractor), obligee (owner), and surety (bonding company). The critical distinction from insurance is that when the surety pays a claim, the contractor must reimburse the surety in full. The surety is not a permanent risk absorber.

44. D. Qualifying agent departure — Tennessee requires the contractor to report a qualifying agent's departure (including death) to the Board within 10 days and designate a replacement within 90 days. Active projects may continue during the replacement period, but the contractor must act within these mandatory deadlines.

45. C. GL insurance tiers — Tennessee's minimum GL insurance requirements are tiered by monetary limit. For limits up to \$500,000, the minimum GL requirement is \$100,000. The contractor's \$475,000 monetary limit falls within this first tier, so \$100,000 in GL coverage is the minimum requirement.

46. D. Change order procedure — Proper change order management requires the change to be documented in writing and signed by both the owner and contractor before the additional work begins. Proceeding with work before obtaining written approval exposes the contractor to the risk of nonpayment and creates documentation disputes.

47. A. Burdened labor rate — Base wage \$38.00 + FICA ($7.65\% \times \$38 = \2.91) + FUTA/SUTA ($3.1\% \times \$38 = \1.18) + workers' comp ($11.4\% \times \$38 = \4.33) + health benefits (\$5.80) = \$52.22. The burdened rate includes all employer-paid costs associated with each hour of employment.

48. D. Excise tax — Limited partnerships are subject to Tennessee excise tax at 6.5% of net earnings. Excise tax = $\$420,000 \times 6.5\% = \$27,300$. Unlike sole proprietorships and general partnerships, limited partnerships are not exempt from franchise and excise tax in Tennessee.

49. A. 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. There is no simple waiting period that automatically permits a fourth attempt.

50. A. Lien filing deadline — Tennessee requires a mechanic's lien to be filed within 90 days of the last day the claimant furnished labor or materials. The contractor's last day was August 22, and the lien was filed on November 15, which is 85 days later. The filing is timely because it falls within the 90-day statutory period.