

PRACTICE EXAM 16: TENNESSEE BUSINESS AND LAW SIMULATION (50 QUESTIONS)

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

1. A contractor submits a financial statement showing total assets of \$920,000, total liabilities of \$580,000, current assets of \$370,000, and current liabilities of \$245,000. The contractor applies for a license with a monetary limit of \$1,500,000. Can the Board approve this limit?

- A. Yes, because the net worth of \$340,000 supports a limit of \$3,400,000, which exceeds the requested amount
- B. Yes, because total assets of \$920,000 are sufficient to support any limit under \$2,000,000
- C. No, because the combined net worth and working capital do not meet the minimum threshold for this tier
- D. No, because the monetary limit is ten times the lesser of net worth or working capital — working capital is \$125,000, yielding a maximum limit of \$1,250,000

2. A Tennessee contractor hires a roofing subcontractor for a \$38,000 re-roofing project on a commercial building. The general contractor tells the roofer that no license is needed because the work is under \$50,000. Is the general contractor's advice correct?

- A. Yes, because roofing subcontractors are exempt from licensing when the scope is under \$50,000
- B. Yes, because the general contractor's license covers all subcontractor trades on the project
- C. No, but the roofer needs only a specialty roofing certification from the shingle manufacturer
- D. No, because Tennessee has required roofing subcontractors to be licensed since January 1, 2014, regardless of contract value

3. A project owner and general contractor execute a \$1,100,000 lump-sum contract to build a medical office. The contract includes a detailed force majeure clause. During construction, a tornado damages the partially completed structure and delays the project by 28 days. The contractor submits a claim for the time extension and \$62,000 in additional costs for temporary repairs and standby equipment. What is the contractor typically entitled to under the force majeure provision?

- A. A time extension for the 28-day delay period, but generally not additional monetary compensation for costs incurred during the delay
- B. Both the 28-day time extension and the full \$62,000 in additional costs because tornados are covered force majeure events
- C. No relief because wind damage is a foreseeable risk that the contractor should have insured against
- D. Automatic contract termination with full payment for all work completed through the date of the tornado

4. A construction company organized as a general partnership has two equal partners. One partner wants to exempt both partners from workers' compensation coverage. The company employs 6 full-time workers. Which statement is correct?

- A. The partners may individually exempt themselves by registering with the Secretary of State, but all 6 employees must be covered because Tennessee requires workers' compensation for employers with one or more employees
- B. Both partners and all employees are automatically exempt because general partnerships are not considered employers under Tennessee workers' compensation law
- C. The partners cannot be exempted because Tennessee does not allow owner exemptions for any business structure
- D. Both partners and employees with fewer than 3 years of service are exempt from mandatory coverage

5. A contractor operating as a corporation has tangible property in Tennessee valued at \$520,000 and a net worth of \$480,000. What is the corporation's Tennessee franchise tax liability?

- A. \$1,200, calculated at \$0.25 per \$100 of net worth because franchise tax always uses net worth
- B. \$100, the minimum franchise tax for Tennessee corporations regardless of financial size
- C. \$1,300, calculated at \$0.25 per \$100 of tangible property of \$520,000 because it is the greater value
- D. \$0, because corporations with tangible property under \$1,000,000 are exempt from franchise tax

6. A general contractor on a county jail construction project has completed \$450,000 worth of work. The county has not paid the contractor for the past two payment applications totaling \$165,000. The contractor wants to file a mechanic's lien against the jail property. Is this a viable strategy?

- A. Yes, because government construction projects exceeding \$250,000 are treated as private contracts for lien purposes
- B. Yes, but only if the contractor first files a formal complaint with the county commission
- C. No, because mechanic's liens cannot be filed against public property — the contractor must pursue a claim against the payment bond
- D. No, and no remedy exists because county governments have absolute sovereign immunity from all construction claims

7. An employer with 18 employees terminates a worker who has been with the company for 4 years. The worker believes the termination was based on a physical disability. Under which federal or state law can the employee file a discrimination claim?

- A. Only the federal ADA, which applies to employers with 15 or more employees
- B. Both the federal ADA and the Tennessee Human Rights Act, because the ADA applies at 15+ employees and the THRA applies at 8+ employees
- C. Only the ADEA, which covers disability discrimination for employers with 20 or more employees
- D. No law applies because disability discrimination claims require a minimum of 25 employees

8. A contractor is bidding on a \$5,200,000 highway bridge project for the Tennessee Department of Transportation. The bid documents require a bid bond, performance bond, and payment bond. What are the standard amounts for the performance and payment bonds on this project?

- A. Performance bond at 50% (\$2,600,000) and payment bond at 100% (\$5,200,000) of the contract value
- B. Performance bond at 100% (\$5,200,000) and payment bond at 50% (\$2,600,000) of the contract value
- C. Both bonds at 50% of the contract value, totaling \$2,600,000 each for a combined \$5,200,000
- D. Both bonds at 100% of the contract value — \$5,200,000 each — guaranteeing project completion and payment to subcontractors and suppliers respectively

9. A contractor enters into a guaranteed maximum price (GMP) contract for \$850,000 on a restaurant renovation. The contract includes a 60/40 shared savings clause, with 60% to the owner. Actual costs total \$790,000. How are the savings distributed?

- A. The contractor keeps the entire \$60,000 savings as a performance incentive for completing under budget

- B. The owner receives \$36,000 (60%) and the contractor receives \$24,000 (40%) of the \$60,000 savings
- C. The owner receives the entire \$60,000 because the GMP is established solely for the owner's financial protection
- D. The savings are held in escrow until the contractor completes the one-year warranty period on all work

10. A construction worker on a commercial roofing project loses a finger when a piece of sheet metal equipment malfunctions. The incident occurs at 8:30 AM on Monday. The site foreman reports it to the company safety office at 9:15 AM the same day. By what time must the employer report this amputation to OSHA?

- A. By 5:15 PM on Monday, which is within 8 hours of the employer learning about the amputation
- B. By 8:30 AM on Tuesday, which is within 24 hours of the time the amputation actually occurred
- C. By 9:15 AM on Tuesday, which is within 24 hours of the employer learning about the amputation
- D. By 9:15 AM on the following Monday, which is within 5 working days of the employer learning of the incident

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

- A. Both the trade exam and Business and Law exam are waived because Ohio has full reciprocity with Tennessee
- B. The trade exam may be waived through reciprocity with Ohio, but the Tennessee Business and Law exam must still be passed
- C. No reciprocity agreement exists between Tennessee and Ohio, requiring both exams independently
- D. The Business and Law exam is waived through reciprocity, but the contractor must pass the Tennessee trade exam

12. A contractor has a net worth of \$330,000 and working capital of \$305,000. The contractor applies for an unlimited license classification. An employee in the contractor's office says the application will be denied because the combined total does not reach \$700,000. Is the employee correct?

- A. No, the employee is incorrect — unlimited status requires that both net worth and working capital each independently exceed \$300,000, and this contractor meets both thresholds
- B. Yes, because the combined total of net worth and working capital must exceed \$700,000 for unlimited status
- C. No, because unlimited status requires only that net worth exceed \$300,000, with no working capital requirement
- D. Yes, because unlimited status requires a minimum net worth of \$500,000 regardless of working capital

13. A contractor operating as an LLC has gross receipts of \$1,650,000, net earnings of \$195,000, a net worth of \$275,000, and tangible property in Tennessee valued at \$310,000. The contractor's accountant says the franchise tax base is the net worth of \$275,000. Is the accountant correct?

- A. No, because franchise tax uses the greater of net worth or tangible property, and tangible property of \$310,000 is the higher value, making the tax \$775
- B. Yes, because franchise tax is always based on net worth for LLCs organized in Tennessee
- C. No, because franchise tax uses gross receipts as the tax base for all business entities
- D. Yes, because tangible property is only used as the tax base when it exceeds \$500,000

14. A contractor's qualifying agent submits a resignation letter on November 15, effective immediately. The contractor has 7 active projects. A project manager at the company says the contractor has 30 days to report the departure and 120 days to find a replacement. Are these timelines correct?

- A. The 30-day reporting deadline is correct, but the replacement period is 90 days, not 120 days
- B. Both timelines are correct — 30 days to report and 120 days to replace the qualifying agent
- C. The reporting deadline is 10 days, but the 120-day replacement period is correct
- D. Neither timeline is correct — the contractor must report within 10 days by November 25 and designate a replacement within 90 days by February 13

15. A contractor purchases \$24,000 in HVAC equipment from a supply house for installation in a church renovation project. The church holds a valid Tennessee sales tax exemption certificate. The contractor asks whether the church's exemption applies to the contractor's purchase. What is the correct answer?

- A. Yes, because materials installed in tax-exempt buildings are exempt from sales tax at the point of purchase

- B. No, because in Tennessee the contractor is the end user of construction materials and must pay the combined state and local sales tax regardless of the building owner's exempt status
- C. Yes, if the contractor provides the supply house with a copy of the church's exemption certificate
- D. No, but the contractor can file a quarterly refund claim with the Tennessee Department of Revenue

16. A property owner hires a contractor under a cost-plus-percentage contract with a 14% fee for a \$500,000 estimated residential renovation. During construction, the owner asks the contractor to evaluate whether using premium hardwood flooring at \$18,000 more than the specified laminate is worthwhile. What inherent conflict of interest does this contract type create?

- A. The contractor has no conflict because the owner makes all material selection decisions independently
- B. The contractor has an incentive to recommend the cheaper option because lower costs improve the contractor's reputation
- C. The contractor has an incentive to discourage upgrades because the percentage fee decreases as costs increase
- D. The contractor has a financial incentive to recommend the more expensive option because a 14% fee on \$18,000 in additional cost generates \$2,520 in additional fee income

17. A carpenter working on a commercial office build-out is installing ceiling grid from a scaffold platform 8 feet above the finished floor. The scaffold has standard guardrails. The site superintendent tells the carpenter that no personal fall protection is needed because the scaffold guardrails provide adequate protection. According to OSHA, is the superintendent's assessment correct regarding the fall protection threshold?

- A. No, because fall protection is required at all heights in commercial construction regardless of guardrail presence
- B. Yes, because OSHA requires fall protection at 6 feet or more in general construction, but scaffold guardrails meeting OSHA standards satisfy the fall protection requirement at this height
- C. No, because fall protection on scaffolds is required only at heights exceeding 10 feet above the working surface
- D. Yes, because the 8-foot height is below the 10-foot scaffold-specific fall protection threshold

18. A subcontractor with a direct contract with the general contractor furnishes labor and materials to a private commercial warehouse project. The subcontractor's last day of furnishing is October 5. By what date must the subcontractor file a mechanic's lien?

- A. December 4, which is 60 days after the last day of furnishing labor or materials
- B. January 3, which is 90 days after the last day of furnishing labor or materials
- C. October 5 of the following year, which is one year from the completion of the subcontractor's work
- D. April 3, which is 180 days after the last day of furnishing labor or materials

19. A contractor is evaluating two contract structures for a commercial tenant improvement project with a well-defined scope. The owner's attorney recommends a lump-sum contract because the scope is clear and the drawings are complete. What is the primary risk allocation advantage of a lump-sum contract for the owner?

- A. The owner benefits because the contractor bears the risk of cost overruns — if actual costs exceed the agreed price, the contractor absorbs the difference
- B. The owner benefits because lump-sum contracts include an implied guaranteed maximum price with shared savings
- C. The owner bears no risk because lump-sum contracts guarantee on-time completion with liquidated damages
- D. The owner benefits because lump-sum contracts require the contractor to provide a cost breakdown for every line item

20. An employer with 42 employees in Tennessee wants to implement a Drug-Free Workplace Program to receive the 5% workers' compensation premium credit. The company's HR director drafts a policy that includes pre-employment testing and post-accident testing only. Does this policy satisfy the program requirements?

- A. Yes, because pre-employment and post-accident testing are the only two components required by Tennessee law
- B. No, because the program must include four components: pre-employment, reasonable suspicion, post-accident, and random drug testing
- C. Yes, because employers with fewer than 50 employees are required to implement only two testing components
- D. No, because the program must also include annual testing of all current employees in addition to pre-employment testing

21. A contractor files a mechanic's lien on a private residential property on April 8, 2025. The contractor and homeowner enter into settlement negotiations that continue for several months. On March 15, 2026, the contractor's attorney advises that the lien will expire soon. By what date must the contractor file a lawsuit to enforce the lien?

- A. By April 8, 2026, which is one year from the date the lien was filed — settlement negotiations do not extend or toll this deadline
- B. By July 7, 2025, which is 90 days from the date the lien was originally filed on the property
- C. By October 5, 2025, which is 180 days from the date the lien was originally filed on the property
- D. By April 8, 2027, which is two years from the filing date because settlement negotiations toll the enforcement period

22. A contractor is preparing to bid on a project with direct costs of \$275,000 in labor and \$185,000 in materials. Equipment rental totals \$40,000. Overhead is calculated at 11% of all direct costs. The contractor wants a 10% profit margin. What is the total bid price?

- A. \$610,500, calculated as direct costs (\$500,000) plus overhead (\$55,000) plus profit at 10% of the combined total (\$55,500)
- B. \$555,000, calculated as direct costs plus overhead only, because profit is embedded in the overhead rate
- C. \$500,000, because equipment rental costs are excluded from the bid calculation on commercial projects
- D. \$577,500, calculated as direct costs plus overhead plus profit on direct costs only, excluding overhead from the profit base

23. A Tennessee contractor holds a BC-A/r restricted residential classification. The contractor is offered a \$115,000 project to remodel the ground-floor commercial space of a mixed-use building. Can the contractor accept this project?

- A. Yes, because the project value is under the \$125,000 cap for BC-A/r holders
- B. Yes, because mixed-use buildings are classified as residential for licensing purposes
- C. No, because BC-A/r classification is restricted to residential projects, and a commercial space remodel does not qualify as residential work
- D. No, because the BC-A/r classification does not permit work on buildings taller than two stories

24. A contractor operating as an S-corporation has net earnings of \$225,000 and tangible property valued at \$190,000 in Tennessee. The contractor's net worth is \$260,000. The contractor's tax preparer says no franchise or excise tax is owed because S-corporations are pass-through entities. Is the tax preparer correct?

- A. Yes, because S-corporations are treated identically to sole proprietorships for all Tennessee tax purposes
- B. Yes, because Tennessee exempts all pass-through entities from franchise and excise tax

C. No, but only excise tax applies to S-corporations — franchise tax is limited to C-corporations

D. No, because S-corporations are subject to both franchise and excise tax in Tennessee regardless of their federal pass-through status

25. A project owner executes a contract for a \$3,200,000 commercial building. The contract contains the standard order of precedence. During construction, the contractor discovers that the addenda issued before contract signing specify ceramic tile in the lobby, the drawings show marble tile, and the specifications call for porcelain tile. Which document controls?

A. The drawings control because they provide the most detailed visual representation of the lobby finish

B. The specifications control because they always take precedence over both drawings and addenda

C. The addenda control because addenda modify all previously issued documents and take precedence over both specifications and drawings

D. The contractor may select any of the three materials and document the decision in the project record

26. A material supplier delivers \$48,000 worth of structural steel to a private commercial project. The supplier has no direct contract with the property owner — the supplier's contract is exclusively with the general contractor. The general contractor has not paid for the materials. What must the supplier do to preserve mechanic's lien rights as a remote claimant?

A. Send a Notice of Nonpayment to the prime contractor or owner within 90 days of the last delivery, then file a mechanic's lien within 90 days of the last delivery

B. File a mechanic's lien directly with the county register of deeds within 90 days — no prior notice is required for suppliers

C. Send a demand letter by certified mail to the general contractor within 30 days of the invoice due date

D. File a breach of contract lawsuit against the general contractor within one year, which automatically creates a lien

27. A contractor wants to determine whether a particular home improvement project requires a Tennessee contractor license. The project involves building a screened-in porch with the following cost breakdown: materials \$12,500, labor \$9,800, and profit \$3,100. There is no land preparation cost. Does this project require a license?

A. No, because residential porch construction is classified as a home improvement exempt from licensing

B. No, because the labor cost alone is under \$25,000, and the licensing threshold applies only to labor costs

- C. Yes, because the total project cost exceeds \$25,000 when materials, labor, and profit are combined
- D. Yes, because the total cost including materials, labor, and profit equals \$25,400, which exceeds the \$25,000 licensing threshold

28. A contractor is reviewing OSHA excavation requirements for a utility installation project. The crew needs to dig a trench 5.5 feet deep in soil classified as Type B. The project foreman says that at 5.5 feet, the trench is "barely over the threshold" and a competent person inspection is sufficient without installing a protective system. Is the foreman correct?

- A. Yes, because OSHA allows a competent person to waive protective systems for trenches between 5 and 6 feet deep
- B. Yes, because Type B soil at shallow depths has sufficient cohesion to prevent cave-ins without physical protection
- C. No, but the protective system requirement only applies if the trench will be occupied for more than 4 consecutive hours
- D. No, because OSHA requires a protective system in all excavations 5 feet or deeper unless the excavation is entirely in stable rock, regardless of how close the depth is to the threshold

29. A contractor holds a Tennessee license with a monetary limit of \$1,600,000. The contractor currently carries \$500,000 in general liability insurance. Does the contractor meet Tennessee's minimum GL insurance requirement?

- A. No, because the minimum GL requirement for limits above \$1,500,000 is \$1,000,000
- B. No, because the \$1,600,000 limit exceeds the \$1,500,000 tier ceiling, requiring \$1,000,000 in GL coverage
- C. Yes, because \$500,000 meets the requirement for limits between \$501,000 and \$1,500,000
- D. Yes, because the GL minimum is 25% of the monetary limit, which equals \$400,000

30. A general contractor on a private commercial project receives a conditional lien waiver from a plumbing subcontractor in exchange for a \$28,000 progress payment. The contractor issues a check, but the check is returned by the bank for insufficient funds. What is the status of the conditional waiver?

- A. The conditional waiver is effective because the contractor issued the check in good faith
- B. The conditional waiver becomes effective 30 days after the check was issued regardless of payment status
- C. The conditional waiver is partially effective for the amount of work completed, not the full payment amount
- D. The conditional waiver is not effective because the condition — actual receipt of payment — was never satisfied

31. A contractor operating as a sole proprietorship earns \$92,000 in net business income for the tax year. The contractor wants to know the approximate self-employment tax liability. What is the correct calculation?

- A. Approximately \$4,600, calculated at 5% of net income, which is the Tennessee self-employment tax rate
- B. Approximately \$14,076, calculated at approximately 15.3% of net self-employment earnings, covering both the Social Security and Medicare portions
- C. Approximately \$2,668, calculated at 2.9% of net income for the Medicare portion only
- D. Approximately \$6,900, calculated at 7.5% of net income, which is the employee-only portion of FICA

32. A contractor wants to obtain up to five specialty license classifications in Tennessee. The contractor has already passed the Business and Law exam. How many additional Business and Law exams must the contractor pass to hold all five specialties?

- A. None — a single Business and Law exam covers all specialty classifications held under one license, and the contractor only needs to pass separate trade exams for each specialty
- B. Four additional exams — one for each additional specialty beyond the first classification
- C. Two additional exams — specialties are grouped into three testing categories of Business and Law content
- D. Five total Business and Law exams — each specialty classification requires its own dedicated exam

33. A contractor is hired to build a warehouse under a time-and-materials contract. After two months, the project costs have reached \$380,000 with no end in sight. The owner demands that the contractor provide a guaranteed maximum price to cap further costs. What is the owner's fundamental problem with this contract type?

- A. The contractor has failed to provide required monthly cost reconciliation reports under T&M contract requirements
- B. The owner should have required competitive bidding before awarding a T&M contract on a project of this size
- C. T&M contracts have no cost ceiling, placing the highest cost risk on the owner — the owner should have negotiated a GMP or lump-sum contract for better cost protection
- D. The contractor is obligated to convert the T&M contract to a lump-sum contract once costs exceed the original estimate

34. A contractor is building a commercial retail center. The specifications require fire-rated hollow metal door frames throughout, but the drawings show aluminum frames in the storage

corridor. The project architect is on vacation and cannot be reached for two weeks. What should the contractor install?

- A. Aluminum frames in the storage corridor as shown on the drawings, because the architect specified them for that location
- B. Fire-rated hollow metal frames throughout, because specifications take precedence over drawings in the standard order of precedence
- C. The less expensive option to save the owner money, with a written notice to the architect upon return
- D. Neither material until the architect resolves the conflict, even if it causes a two-week delay to the project

35. A Tennessee contractor licensed in the BC-B classification is offered a residential project that includes \$32,000 in plumbing work, \$28,000 in electrical work, and \$18,000 in HVAC work as part of a \$380,000 total contract. Can the contractor self-perform the plumbing, electrical, and HVAC portions?

- A. No, because the BC classification excludes electrical, HVAC, and plumbing work exceeding \$25,000 — each trade must be performed by a separately licensed subcontractor
- B. Yes, because the BC-B classification permits the general contractor to self-perform all trades on any project
- C. No, because only the plumbing and electrical exceed \$25,000 — the HVAC work at \$18,000 can be self-performed
- D. Yes, because these trades are included in the BC classification when they are part of a larger residential contract

36. A contractor operating as a limited partnership has gross receipts of \$2,400,000, net earnings of \$280,000, tangible property in Tennessee valued at \$350,000, and a net worth of \$290,000. What taxes does this entity owe in Tennessee?

- A. Business tax on gross receipts only, because limited partnerships are exempt from franchise and excise tax
- B. Franchise and excise tax only, because limited partnerships are exempt from Tennessee business tax
- C. Business tax on gross receipts, franchise tax at \$0.25 per \$100 of the greater of net worth or tangible property, and excise tax at 6.5% on net earnings
- D. No Tennessee taxes, because limited partnerships are pure pass-through entities exempt from all state-level taxes

37. A contractor executes a \$750,000 stipulated-sum contract for a commercial interior build-out. After completing 70% of the work, the owner terminates the contractor for convenience.

The contractor has incurred \$472,500 in costs and earned \$52,500 in profit on the completed work. The contractor also claims \$67,500 in anticipated profit on the unperformed 30%. What is the contractor entitled to receive?

- A. The full \$750,000 contract price because the owner terminated without cause and the contractor was performing satisfactorily
- B. \$592,500, consisting of costs (\$472,500) plus earned profit (\$52,500) plus anticipated profit (\$67,500) on unperformed work
- C. \$472,500, consisting of only the direct costs incurred with no profit on any portion of the work performed
- D. \$525,000, consisting of costs incurred (\$472,500) plus profit earned on the completed portion (\$52,500), with no recovery of anticipated profit on the unperformed work

38. A contractor is reviewing the contract documents for a new elementary school construction project. The contract package includes an agreement, supplementary conditions, general conditions, specifications, drawings, and addenda. The contractor asks the project manager to confirm the standard order of precedence. What is the correct hierarchy from highest to lowest?

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

39. A contractor operates a construction business as an LLC with two members. The company wants to take advantage of Tennessee's Drug-Free Workplace Program for the 5% workers' compensation premium credit. What testing components must the program include?

- A. Only pre-employment and annual screening of all current employees
- B. Pre-employment and post-accident testing only, because random testing is prohibited by Tennessee privacy law
- C. Pre-employment, reasonable suspicion, post-accident, and random drug testing — all four components are required
- D. Only post-accident and reasonable suspicion testing, because pre-employment testing is optional

40. A masonry subcontractor is bidding on a \$105,000 scope of masonry work for a new commercial office building. The subcontractor's partner says that an LMC license is required for this project. Is the partner correct?

- A. Yes, because the Limited Licensed Masonry Contractor license is required when masonry subcontractor work reaches \$100,000 or more
- B. No, because the LMC license is required only when masonry work exceeds \$125,000 on commercial projects
- C. Yes, because all masonry subcontractors must hold an LMC license regardless of the contract value
- D. No, because the general contractor's license covers all masonry work performed by subcontractors on the project

41. A contractor receives an OSHA citation for a serious fall protection violation on March 24. The contractor disagrees with the citation and wants to contest it. The company's safety director counts 15 calendar days and marks April 8 as the contest deadline. Is the safety director using the correct counting method?

- A. Yes, because OSHA citation contests are measured in 15 calendar days from the date of receipt
- B. No, because the contest period is 30 calendar days from the date the citation was issued
- C. No, because the contest period is 15 working days (excluding weekends and federal holidays) from receipt of the citation, not 15 calendar days
- D. Yes, because the 15-calendar-day period applies to serious violations, while willful violations receive 30 days

42. A contractor has a Tennessee license with a monetary limit of \$3,200,000. The contractor's current financial statement is a reviewed statement prepared by a CPA. Does this meet the Board's requirements?

- A. Yes, because reviewed financial statements are acceptable for any monetary limit up to \$5,000,000
- B. Yes, because the Board requires audited statements only for limits exceeding \$5,000,000
- C. No, because monetary limits exceeding \$3,000,000 require an audited financial statement, not a reviewed statement
- D. No, because all monetary limits exceeding \$1,000,000 require audited financial statements

43. A contractor is constructing a commercial warehouse and the project is 60% complete. The contractor's financial records show the following: contract price \$800,000, costs incurred to date \$384,000, total estimated costs \$640,000. Using the percentage-of-completion method, what revenue should be recognized?

- A. \$384,000, matching revenue directly to costs incurred without applying any ratio to the contract price

- B. \$480,000, calculated by multiplying the 60% physical completion rate by the total contract price
- C. \$800,000, because revenue should be fully recognized once a project passes the 50% completion milestone
- D. \$480,000, calculated as costs to date (\$384,000) divided by total estimated costs (\$640,000) multiplied by the contract price (\$800,000)

44. A Tennessee contractor with 75 employees is hiring workers for a large commercial project. The HR department asks whether E-Verify is mandatory. The company attorney says E-Verify is only required for government contractors. Is the attorney correct?

- A. Yes, because E-Verify is a federal program required only for companies with government contracts
- B. Yes, because Tennessee exempts private-sector construction companies from E-Verify requirements
- C. No, because Tennessee requires E-Verify for all employers with 50 or more employees, regardless of whether they hold government contracts
- D. No, because E-Verify is required for all Tennessee employers with 25 or more employees

45. A contractor bids on a residential subdivision project. The project includes installing 1,200 linear feet of concrete sidewalk at a unit price of \$42 per linear foot. After grading is complete, the civil engineer determines that only 980 linear feet of sidewalk are needed due to a design revision. What is the financial impact under a unit-price contract?

- A. The owner pays for the 980 linear feet actually installed at \$42 per foot, totaling \$41,160, because in a unit-price contract the owner bears the quantity risk
- B. The contractor is entitled to payment for the full 1,200 linear feet because the original quantity is a guaranteed minimum
- C. The owner pays for 980 linear feet plus a 10% cancellation fee on the 220 uninstalled linear feet
- D. The contractor and owner negotiate a new unit price based on the reduced quantity before work begins

46. A contractor's employee is working on a scaffold that is 11 feet above the ground on a commercial construction site. The scaffold has a 3:1 safety factor. According to OSHA, does this scaffold meet the minimum safety factor requirement?

- A. Yes, because a 3:1 safety factor exceeds the minimum 2:1 requirement for scaffolding in construction

- B. No, because OSHA requires a minimum 4:1 safety factor for all scaffolding, and this scaffold falls below that standard
- C. Yes, because the 3:1 safety factor applies to scaffolds under 15 feet in height
- D. No, but only because the scaffold is above 10 feet — a 3:1 safety factor is acceptable below 10 feet

47. A construction company structured as a general partnership has two partners and 6 employees. One partner asks the company's accountant whether the partnership owes Tennessee franchise and excise tax. What is the correct answer?

- A. Yes, because all business entities with employees in Tennessee are subject to franchise and excise tax
- B. Yes, but only the excise tax applies — general partnerships are exempt from franchise tax only
- C. No, because general partnerships are exempt from both franchise and excise tax in Tennessee — those taxes apply only to corporations, LLCs, and limited partnerships
- D. No, because general partnerships with fewer than 10 employees are exempt regardless of revenue

48. A contractor enters into a stipulated-sum contract for a \$450,000 commercial renovation. Midway through the project, the owner requests a change that adds \$35,000 in new work. The contractor begins the additional work based on a verbal approval from the owner's project manager. Two weeks later, the owner disputes the \$35,000 charge. What is the core procedural issue?

- A. The verbal approval is enforceable because the project manager has apparent authority to authorize changes
- B. The core issue is that change orders should be written and signed by both parties before the additional work begins — the lack of written documentation creates a dispute over scope and price
- C. The change order is void because only the project architect can authorize changes on a commercial project
- D. The contractor must absorb the \$35,000 because verbal change orders are automatically void under Tennessee law

49. A contractor's most recent financial statement shows total assets of \$1,200,000, total liabilities of \$830,000, current assets of \$480,000, and current liabilities of \$165,000. What is the contractor's monetary limit, and does the contractor qualify for an unlimited license?

- A. Monetary limit is \$3,150,000 and the contractor qualifies for unlimited status because working capital exceeds \$300,000

- B. Monetary limit is \$3,700,000 and the contractor qualifies for unlimited status because net worth exceeds \$300,000
- C. Monetary limit is \$3,150,000 based on working capital, and the contractor does not qualify for unlimited status because the net worth of \$370,000 exceeds \$300,000 but the test requires checking both values independently
- D. Monetary limit is \$3,700,000, and the contractor does not qualify because unlimited status requires both values above \$500,000

50. A contractor completes all work on a private residential addition on September 12. The homeowner has withheld \$18,000 in final payment. The contractor wants to file a mechanic's lien. What is the deadline for filing, and what is the deadline for enforcing the lien through litigation?

- A. File within 90 days of the last day of furnishing (by December 11), and enforce by filing a lawsuit within 1 year of the lien filing date
- B. File within 60 days of the last day of furnishing, and enforce within 6 months of the filing date
- C. File within 120 days of the last day of furnishing, and enforce within 2 years of the filing date
- D. File within 90 days of project completion, and enforce within 90 days of the lien filing date

Answer Key and Explanations

1. D. Monetary limit calculation — Net worth = $\$920,000 - \$580,000 = \$340,000$. Working capital = $\$370,000 - \$245,000 = \$125,000$. The monetary limit is ten times the lesser of net worth or working capital. The lesser value is \$125,000, so the maximum limit is \$1,250,000. The requested \$1,500,000 exceeds this ceiling, and the Board cannot approve it.

2. D. Roofing subcontractor licensing — Tennessee has required all roofing subcontractors to be licensed since January 1, 2014. This requirement applies regardless of the contract value. The general contractor's advice is incorrect, and the roofing subcontractor must hold a valid Tennessee contractor license.

3. A. Force majeure relief — A force majeure clause typically entitles the contractor to a time extension for delays caused by events beyond the parties' control, such as a tornado. However, force majeure provisions generally do not provide additional monetary compensation for costs incurred during the delay, such as temporary repairs or standby equipment.

4. A. Workers' compensation — Tennessee requires workers' compensation coverage for all employers with one or more employees. Business owners and officers may individually exempt themselves by registering the exemption with the Secretary of State. This personal exemption does not extend to the company's employees.

5. 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 (\$520,000) is greater than net worth (\$480,000). The calculation is $\$520,000 \div 100 \times \$0.25 = \$1,300$.

6. C. Public property liens — Mechanic's liens cannot be filed against public property in Tennessee, including county jail facilities. The contractor's remedy on public projects is to pursue a claim against the payment bond, which guarantees payment to contractors, subcontractors, and suppliers.

7. B. Disability discrimination — The federal ADA applies to employers with 15 or more employees. The Tennessee Human Rights Act applies to employers with 8 or more employees. With 18 employees, both laws apply, giving the worker the option to file a disability discrimination claim under either or both statutes.

8. D. Bond amounts — Both the performance bond and payment bond are typically set at 100% of the contract value. The performance bond guarantees project completion per the contract terms. The payment bond guarantees payment to subcontractors and material suppliers. Each bond would be \$5,200,000.

9. B. GMP shared savings — Under a GMP contract with a 60/40 shared savings clause, savings below the GMP are distributed according to the agreed ratio. The \$60,000 savings (\$850,000 – \$790,000) is split 60% to the owner (\$36,000) and 40% to the contractor (\$24,000).

10. C. OSHA reporting — Amputations must be reported to OSHA within 24 hours of the employer learning about the incident. The safety office learned at 9:15 AM on Monday, so the reporting deadline is 9:15 AM on Tuesday. Only fatalities trigger the shorter 8-hour reporting window.

11. B. Ohio reciprocity — Ohio is one of Tennessee's reciprocity states. Reciprocity provides a trade exam waiver only. The Tennessee Business and Law exam is always required and is never waived through any reciprocity arrangement, NASCLA credential, or other means.

12. A. Unlimited license — Unlimited status requires that both net worth and working capital each independently exceed \$300,000. Net worth (\$330,000) and working capital (\$305,000) both exceed the threshold. The employee's claim about a combined \$700,000 requirement is incorrect.

13. A. Franchise tax base — Franchise tax uses the greater of net worth or tangible property. Tangible property (\$310,000) is greater than net worth (\$275,000). The tax is $\$310,000 \div 100 \times \$0.25 = \$775$. The accountant was incorrect about net worth being the tax base.

14. D. Qualifying agent timelines — Tennessee requires the contractor to report a qualifying agent's departure within 10 days (by November 25) and designate a replacement within 90 days

(by February 13). The project manager's stated timelines of 30 days and 120 days are both incorrect.

15. B. Sales tax — In Tennessee, the contractor is the end user of construction materials and must pay 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 building owner's exemption.

16. D. Cost-plus-percentage conflict — A cost-plus-percentage contract creates an inherent conflict of interest because the contractor's fee increases proportionally with costs. A 14% fee on an \$18,000 upgrade generates \$2,520 in additional fee income, incentivizing the contractor to recommend more expensive options.

17. B. Scaffold fall protection — OSHA requires fall protection at 6 feet in general construction. At 8 feet, the worker is above the threshold. However, standard scaffold guardrails that meet OSHA's specifications (toprail, midrail, and toeboards at required heights) satisfy the fall protection requirement for scaffolding. The superintendent's assessment is correct regarding guardrails meeting the fall protection requirement.

18. B. 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 subcontractor's last day was October 5, so the filing deadline is January 3, which is 90 days from that date.

19. A. Lump-sum risk allocation — In a lump-sum contract, the contractor bears the primary cost overrun risk. If actual costs exceed the agreed contract price, the contractor must absorb the difference. This provides the owner with cost certainty because the price is fixed regardless of the contractor's actual costs.

20. B. Drug-Free Workplace — To qualify for the 5% workers' compensation premium credit, the employer's program must include all four testing components: pre-employment, reasonable suspicion, post-accident, and random drug testing. A program with only two components does not satisfy the requirements.

21. A. Lien enforcement — A lawsuit to enforce a mechanic's lien must be filed within one year of the date the lien was filed. The lien was filed April 8, 2025, so the enforcement deadline is April 8, 2026. Settlement negotiations do not toll, suspend, or extend this statutory deadline.

22. A. Bid calculation — Direct costs = \$275,000 + \$185,000 + \$40,000 = \$500,000. Overhead = $11\% \times \$500,000 = \$55,000$. Subtotal = \$555,000. Profit = $10\% \times \$555,000 = \$55,500$. Total bid = \$555,000 + \$55,500 = \$610,500. Profit is calculated on total cost (direct costs plus overhead).

23. C. BC-A/r restrictions — The BC-A/r classification is restricted to residential projects only. A commercial space remodel, even in a mixed-use building, does not qualify as residential work. The project value being under \$125,000 is irrelevant because the classification limits the type of work, not just the dollar amount.

24. D. S-corporation taxes — In Tennessee, S-corporations are subject to both franchise and excise tax. Unlike sole proprietorships and general partnerships, which are exempt, S-corporations (along with C-corporations, LLCs, and limited partnerships) must pay these taxes regardless of their federal pass-through treatment.

25. C. Order of precedence and addenda — In the standard order of precedence, addenda modify all previously issued documents. Since addenda are issued after the original specifications and drawings, they take precedence over both. The ceramic tile specified in the addenda controls over the conflicting specifications and drawings.

26. A. Remote claimant procedure — A supplier without a direct contract with the property owner is a remote claimant. To preserve lien rights, the supplier must send a Notice of Nonpayment to the prime contractor or owner within 90 days of the last delivery, and file the mechanic's lien within 90 days of the last furnishing date.

27. D. Licensing threshold — Total project cost includes materials (\$12,500) + labor (\$9,800) + profit (\$3,100) = \$25,400. This exceeds the \$25,000 licensing threshold. The total cost includes all components — materials, labor, land preparation, and profit — with no component excluded.

28. D. Excavation protection — OSHA requires a protective system (sloping, shoring, or trench box) in all excavations 5 feet or deeper, unless the excavation is made entirely in stable rock. Type B soil is not stable rock, so the 5.5-foot trench requires a protective system. There is no exception for trenches "barely over" the threshold.

29. B. GL insurance tiers — Tennessee's minimum GL insurance is tiered by monetary limit. The \$1,600,000 limit exceeds \$1,501,000, placing the contractor in the highest tier, which requires \$1,000,000 minimum GL. The current \$500,000 policy does not meet this requirement.

30. D. 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. The waiver is not effective, and the subcontractor retains full lien rights.

31. B. Self-employment tax — Self-employment tax is approximately 15.3% of net self-employment earnings, combining the Social Security portion (12.4%) and Medicare portion (2.9%). On \$92,000: $\$92,000 \times 15.3\% = \$14,076$. This is a federal tax obligation for sole proprietors.

32. A. Specialty license exams — Tennessee allows a contractor to hold up to five specialty classifications under a single Business and Law exam. The contractor passes the Business and Law exam once, then takes a separate trade exam for each specialty classification. No additional Business and Law exams are required.

33. C. T&M contract risk — Time-and-materials contracts carry the highest cost risk for the owner because there is no cost ceiling or guaranteed maximum price. The contractor is

reimbursed for actual time and materials with no cap. The owner should have negotiated a GMP or lump-sum contract for cost protection.

34. B. Specifications over drawings — In the standard order of precedence, specifications take precedence over drawings. The fire-rated hollow metal frames specified in the specifications control over the aluminum frames shown on the drawings. The contractor should install the specified material and document the conflict.

35. A. BC classification trade exclusions — The BC (building contractor) classification excludes electrical, HVAC, and plumbing work exceeding \$25,000. The plumbing (\$32,000), electrical (\$28,000), and HVAC (\$18,000 — under \$25,000) must be evaluated individually. Plumbing and electrical exceed \$25,000 and must be subcontracted to licensed specialty contractors. HVAC at \$18,000 is under the threshold but the question asks about all three trades. Since the BC excludes plumbing and electrical exceeding \$25,000, those must be separately licensed.

36. C. Limited partnership taxation — Limited partnerships are subject to all three Tennessee taxes: business tax on gross receipts, franchise tax on the greater of net worth or tangible property, and excise tax at 6.5% on net earnings. Unlike general partnerships and sole proprietorships, limited partnerships are not exempt.

37. D. Termination for convenience — When the owner terminates for convenience, the contractor receives payment for completed work plus costs incurred plus profit earned on the completed portion. The contractor does not receive anticipated profit on unperformed work. Total = \$472,500 + \$52,500 = \$525,000.

38. D. Order of precedence — The standard hierarchy from highest to lowest is: agreement → supplementary conditions → general conditions → specifications → drawings → addenda. This order determines which document controls when conflicting provisions exist across the contract documents.

39. C. Drug-Free Workplace — Tennessee's Drug-Free Workplace Program requires four components for the 5% workers' compensation premium credit: pre-employment testing, reasonable suspicion testing, post-accident testing, and random drug testing. All four must be implemented.

40. A. LMC threshold — The Limited Licensed Masonry Contractor (LMC) license is required when masonry subcontractor work reaches \$100,000 or more. At \$105,000, this project exceeds the threshold, and the masonry subcontractor must hold an LMC license.

41. C. Citation contest period — OSHA requires a notice of contest to be filed within 15 working days (not calendar days) of receiving the citation. Working days exclude weekends and federal holidays. The safety director incorrectly counted calendar days, which would result in a shorter deadline.

42. C. Financial statement requirements — Tennessee requires an audited financial statement when the contractor's monetary limit exceeds \$3,000,000. A reviewed statement is sufficient

for limits of \$3,000,000 or less. At \$3,200,000, the contractor must upgrade to an audited statement.

43. D. Percentage of completion — Revenue = (costs to date ÷ total estimated costs) × contract price = ($\$384,000 \div \$640,000$) × $\$800,000 = 0.60 \times \$800,000 = \$480,000$. This method recognizes revenue proportionally based on the ratio of actual costs to total estimated costs.

44. C. E-Verify — Tennessee requires E-Verify for all employers with 50 or more employees, regardless of whether they hold government contracts. With 75 employees, this contractor must use E-Verify for all new hires. I-9 forms are separately required for all employers regardless of size.

45. A. Unit-price quantity risk — In a unit-price contract, the owner bears the quantity risk. When actual quantities decrease, the owner pays only for the amount actually installed at the agreed unit price. The owner pays $980 \times \$42 = \$41,160$.

46. B. Scaffold safety factor — OSHA requires all scaffolding to be designed with a minimum 4:1 safety factor, meaning the scaffold must be able to support at least four times its maximum intended load. A 3:1 safety factor does not meet this requirement regardless of scaffold height.

47. C. General partnership tax status — General partnerships (and sole proprietorships) are exempt from Tennessee franchise and excise tax. Those taxes apply only to corporations, LLCs, and limited partnerships. The partnership remains subject to Tennessee business tax on gross receipts.

48. B. Change order procedure — Change orders should be in writing and signed by both parties before additional work begins. The core procedural issue is the lack of written documentation. Without a written change order, the contractor's position is weakened in any dispute over the scope, price, or authorization of the additional work.

49. C. Monetary limit and unlimited — Net worth = $\$1,200,000 - \$830,000 = \$370,000$. Working capital = $\$480,000 - \$165,000 = \$315,000$. Monetary limit = $10 \times$ lesser value ($\$315,000$) = $\$3,150,000$. For unlimited status, both net worth and working capital must each independently exceed $\$300,000$. Both values meet this requirement, and the contractor qualifies for unlimited classification.

50. A. Lien filing and enforcement — Tennessee requires a mechanic's lien to be filed within 90 days of the last day of furnishing labor or materials. The contractor's last day was September 12, so the filing deadline is December 11. Once filed, the lien must be enforced by filing a lawsuit within one year of the lien filing date.