

PRACTICE EXAM 17: TENNESSEE BUSINESS AND LAW SIMULATION (50 QUESTIONS)

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

1. A Tennessee contractor operating as a sole proprietorship wants to understand the company's workers' compensation obligations. The contractor employs 2 full-time carpenters and 1 part-time laborer. The contractor's spouse, who handles bookkeeping, is not on the payroll. What coverage is required?

- A. No coverage is required because sole proprietorships with fewer than 5 employees are exempt from workers' compensation
- B. Workers' compensation is required for all three employees because Tennessee mandates coverage for employers with one or more employees
- C. Coverage is required only for the two full-time carpenters because part-time workers are excluded
- D. Coverage is optional because the total payroll is below the minimum threshold for mandatory enrollment

2. A general contractor holds a license with a monetary limit of \$2,800,000. The contractor submits a reviewed financial statement prepared by a CPA. The contractor then bids on a project requiring a \$3,100,000 limit and asks the accountant to update the financials. What additional requirement must the contractor meet at the higher limit?

- A. A reviewed statement remains sufficient for any limit up to \$5,000,000 as long as it is prepared by a licensed CPA
- B. The contractor must submit a self-certified financial statement with a sworn affidavit for limits above \$3,000,000
- C. The contractor must obtain Board pre-approval before upgrading from a reviewed to an audited statement
- D. The contractor must submit an audited financial statement because limits exceeding \$3,000,000 require an audit

3. A contractor enters into a \$520,000 lump-sum contract to renovate a retail storefront. During demolition, the contractor discovers extensive hidden termite damage requiring \$68,000 in additional structural repair. The contract contains no differing site conditions clause. Who bears the cost of the termite damage repair?

A. The owner bears the cost because hidden damage is always the owner's responsibility under implied warranty

B. The cost is shared equally between the owner and contractor under the standard risk-sharing principle

C. The contractor bears the cost because in a lump-sum contract the contractor assumes the risk of unforeseen conditions when no differing site conditions clause exists

D. The contractor can file a mechanic's lien for the \$68,000 without prior notification to the owner

4. A construction company organized as a C-corporation has gross receipts of \$3,200,000, net earnings of \$340,000, a net worth of \$480,000, and tangible property in Tennessee valued at \$520,000. What is the company's combined franchise and excise tax liability?

A. \$22,100, consisting of \$1,200 in franchise tax on net worth plus \$22,100 in excise tax on net earnings

B. \$1,300 in franchise tax only, because C-corporations are exempt from excise tax in Tennessee

C. \$23,400, consisting of \$1,300 in franchise tax based on tangible property of \$520,000 plus \$22,100 in excise tax at 6.5% of net earnings

D. \$0, because C-corporations with gross receipts under \$5,000,000 are exempt from both taxes

5. A subcontractor completes plumbing rough-in work on a private hospital construction project on March 22. The subcontractor has a direct contract with the general contractor but has not been paid. The subcontractor's office manager says a mechanic's lien must be filed by June 20, which is exactly 90 days later. Is the office manager's calculation correct?

A. No, because the filing deadline is 60 days from the last day of furnishing, making the deadline May 21

B. No, because the subcontractor must first send a Notice of Nonpayment within 30 days before filing any lien

C. Yes, because the deadline is 90 days from substantial completion of the entire project, not the subcontractor's work

D. Yes, because Tennessee requires mechanic's liens to be filed within 90 days of the last day of furnishing labor or materials, and June 20 is approximately 90 days from March 22

6. A contractor's qualifying agent is involved in a serious car accident on August 8 and is permanently unable to return to work. The contractor has 12 active projects. By what date must the contractor report the departure, and by what date must a replacement be designated?

- A. Report within 5 business days by August 15 and replace within 60 days by October 7
- B. Report within 30 days by September 7 and replace within 120 days by December 6
- C. Report within 15 days by August 23 and replace within 180 days by February 4
- D. Report within 10 days by August 18 and replace within 90 days by November 6

7. A contractor operating as an LLC receives its first Tennessee business tax bill. The LLC's gross receipts total \$1,900,000. The LLC paid \$1,100,000 to licensed subcontractors and \$200,000 to an unlicensed handyman crew during the year. What amount is deductible from gross receipts for business tax purposes?

- A. \$1,300,000, because all payments to subcontractors and laborers are deductible regardless of licensing status
- B. \$0, because Tennessee does not permit any deductions from gross receipts for business tax purposes
- C. \$1,100,000, because only payments to properly licensed subcontractors qualify for the deduction
- D. \$650,000, because the deduction is capped at 50% of total payments made to all subcontractors

8. A project owner terminates a contractor for cause on a \$1,400,000 commercial contract after the contractor fails to correct persistent quality deficiencies despite two written cure notices. The contractor has completed 55% of the work at a cost of \$693,000. A replacement contractor will cost \$780,000 to complete the remaining 45%. What is the original contractor entitled to receive?

- A. \$770,000, representing 55% of the contract price for the completed work regardless of quality issues
- B. The value of acceptably completed work minus any additional costs the owner incurs using the replacement contractor to finish the project
- C. \$693,000 in direct costs plus a 10% termination fee for early contract dissolution
- D. Nothing, because termination for cause automatically forfeits all rights to compensation

9. An employer with 48 employees operates from two office locations in Nashville, both within 3 miles of each other. An employee who has worked for the company for 18 months requests 12 weeks of unpaid FMLA leave to care for a parent with Alzheimer's disease. Is the employee eligible?

- A. No, because FMLA requires 50 or more employees within a 75-mile radius, and this employer has only 48 employees even when both locations are combined
- B. Yes, because the two locations within 3 miles effectively create a single worksite exceeding the 50-employee threshold
- C. No, because FMLA leave for parental care is limited to 6 weeks, not the full 12 weeks
- D. Yes, because the 18-month tenure exceeds the 12-month minimum and Alzheimer's care qualifies as a serious health condition

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

- A. Both exams are fully waived because Arkansas has a comprehensive reciprocity agreement with Tennessee
- B. The trade exam may be waived through reciprocity with Arkansas, but the Tennessee Business and Law exam must still be passed
- C. No reciprocity exists between Tennessee and Arkansas, so both exams must be taken independently
- D. The Business and Law exam is waived through reciprocity, but the trade exam must be taken in Tennessee

11. A contractor is reviewing a bid package for a public school renovation project. The documents require a 10% bid bond, a 100% performance bond, and a 100% payment bond. The contractor's project manager asks what happens if the contractor wins the bid and then refuses to sign the contract. What is the consequence?

- A. The surety pays the obligee up to the bid bond amount, and the contractor must reimburse the surety because a bond is not insurance
- B. The contractor forfeits only the bid bond premium paid to the surety company, with no further financial obligation
- C. The school district must rebid the project and cannot pursue any damages against the winning bidder
- D. The contractor faces criminal penalties for breach of a public contract under Tennessee procurement law

12. A contractor purchases \$32,000 in roofing materials for a commercial project. The state sales tax rate is 7% and the local rate is 2.75%. The contractor wants to charge the customer for the sales tax as a separate line item on the invoice. What amount of sales tax does the contractor owe at the point of purchase?

- A. \$2,240, because only the state portion of sales tax applies to construction materials

- B. \$0, because licensed contractors are exempt from sales tax on materials used in commercial projects
- C. \$880, because the local rate applies only to retail consumer purchases and not contractor material purchases
- D. \$3,120, because the contractor is the end user and must pay the full combined rate of 9.75% at the time of purchase

13. A Tennessee contractor wants to apply for a BC-A/r restricted residential classification. The contractor's colleague says the BC-A/r allows projects up to \$125,000, requires a trade exam, and permits joint ventures with other contractors. How many of the colleague's three statements are correct?

- A. All three are correct because BC-A/r is a standard residential classification with full privileges
- B. Two are correct — the \$125,000 limit and the trade exam requirement are accurate, but joint ventures are prohibited
- C. Only one is correct — the \$125,000 limit is accurate, but no trade exam is required and joint ventures are prohibited
- D. None are correct because the BC-A/r classification has a \$100,000 limit and different requirements

14. An employer with 22 employees in Tennessee wants to know which federal employment discrimination laws apply to the company. The HR director creates a compliance checklist. Which combination is accurate?

- A. Only Title VII applies because it is the sole employment discrimination law with a threshold below 25 employees
- B. Title VII, ADA, and ADEA all apply — Title VII and ADA at 15+ employees, and ADEA at 20+ employees
- C. Title VII, ADA, ADEA, and FMLA all apply because the 50-employee FMLA threshold is reduced for construction
- D. Only the Tennessee Human Rights Act applies because federal discrimination laws require a minimum of 25 employees

15. A contractor has total assets of \$750,000, total liabilities of \$430,000, current assets of \$310,000, and current liabilities of \$175,000. The contractor applies for a monetary limit of \$1,500,000. Can the Board approve this limit?

- A. Yes, because the net worth of \$320,000 supports a limit of \$3,200,000, which exceeds the requested amount

- B. No, because the monetary limit is based solely on net worth, and $\$320,000 \times 10 = \$3,200,000$ exceeds the limit
- C. No, because the monetary limit is ten times the lesser of net worth or working capital — working capital is \$135,000, yielding a maximum of \$1,350,000
- D. Yes, because total assets of \$750,000 support any limit under \$2,000,000 under the Board's asset-based formula

16. A contractor enters into a cost-plus-percentage contract with a 12% fee for a commercial renovation estimated at \$400,000. The actual construction costs reach \$465,000 due to owner-requested upgrades. What is the contractor's total fee, and what incentive problem exists?

- A. The fee is \$48,000 based on the original estimate, because the percentage fee is locked at contract signing
- B. The fee is \$55,800 based on actual costs, creating an incentive for the contractor to allow costs to increase because higher costs generate a higher dollar fee
- C. The fee is \$48,000 plus a \$7,800 change order fee that requires separate written authorization from the owner
- D. The fee is \$55,800 but the incentive problem is eliminated because the owner authorized all upgrades

17. A worker on a commercial construction site falls from a scaffold platform 7 feet above the ground and suffers a spinal injury requiring hospitalization. The site superintendent learns of the hospitalization at 11:00 AM on Wednesday. By what time must the employer report this to OSHA?

- A. By 11:00 AM on Thursday, because hospitalizations must be reported within 24 hours of the employer learning about the incident
- B. By 7:00 PM on Wednesday, because hospitalizations require reporting within 8 hours of the employer's knowledge
- C. By 11:00 AM on the following Wednesday, because hospitalization reports are due within 5 working days
- D. By 11:00 AM on Friday, because OSHA allows 48 hours for hospitalization reports on construction sites

18. A contractor files a mechanic's lien on a private commercial property on January 15, 2026. The contractor's attorney schedules a meeting with the property owner's counsel for settlement discussions in October 2026. The contractor asks whether the settlement timeline creates any risk. What should the attorney advise?

- A. The contractor must file an enforcement lawsuit by January 15, 2027, because the lien expires one year from the filing date and settlement negotiations do not extend this deadline
- B. The lien remains valid indefinitely as long as settlement negotiations are ongoing and documented in writing
- C. The contractor has two years from the filing date to enforce the lien, so October 2026 is well within the safe window
- D. The settlement discussions automatically toll the one-year enforcement period for an additional six months

19. A contractor holds a license with a monetary limit of \$1,200,000. The contractor carries \$300,000 in general liability insurance. A project owner asks the contractor to verify insurance compliance before signing the contract. Does the contractor meet Tennessee's minimum GL requirement?

- A. Yes, because \$300,000 exceeds the \$100,000 minimum required for all Tennessee contractors
- B. No, because the \$1,200,000 monetary limit falls in the \$501,000–\$1,500,000 tier, which requires a minimum of \$500,000 in GL coverage
- C. Yes, because GL coverage equal to 25% of the monetary limit is the standard requirement
- D. No, because all contractors with monetary limits above \$1,000,000 must carry \$1,000,000 in GL coverage

20. A contractor operating as a sole proprietorship earns \$110,000 in net business income for the year. The contractor wants to understand the Tennessee state tax obligations that apply specifically to this business structure. Which statement is correct?

- A. The sole proprietorship is exempt from Tennessee franchise and excise tax but is subject to Tennessee business tax on gross receipts
- B. The sole proprietorship owes Tennessee state income tax at the individual rate of 6.5% on the \$110,000
- C. The sole proprietorship is subject to franchise and excise tax because all business entities in Tennessee are covered
- D. The sole proprietorship is exempt from all Tennessee state-level business taxes because it is a pass-through entity

21. A property owner signs a construction contract for a new commercial building. The contract includes the following elements: written offer, written acceptance, a \$10,000 earnest money deposit as consideration, and the scope involves legal construction work. However, the contractor's license expired three months before the contract was signed. Does the contractor have a valid, enforceable contract?

- A. Yes, because the license status is an administrative matter that does not affect the enforceability of the contract
- B. No, because the contractor lacks legal capacity to enter into the contract — performing construction work without a valid license can render the contract unenforceable and expose the contractor to penalties
- C. Yes, because the expired license can be renewed retroactively to cover the contract period
- D. No, but only if the project value exceeds \$50,000 — contracts under \$50,000 are enforceable without a license

22. A contractor is building a strip mall under a guaranteed maximum price (GMP) contract set at \$1,800,000. The contract includes a 50/50 shared savings clause. Actual construction costs total \$1,680,000. How are the savings distributed between the owner and contractor?

- A. The contractor receives the entire \$120,000 as a bonus for completing the project under the GMP ceiling
- B. The owner receives \$60,000 and the contractor receives \$60,000, splitting the \$120,000 savings equally under the 50/50 clause
- C. The owner receives the entire \$120,000 because the GMP is established solely for the owner's financial protection
- D. The \$120,000 is held in an escrow account until the end of the one-year warranty period on all work

23. A construction crew is excavating a utility trench that reaches 6 feet deep in soil classified as Type C. The site foreman directs the crew to continue working in the trench without installing a protective system because Type C soil "holds together well enough at this depth." Is the foreman's decision compliant with OSHA regulations?

- A. Yes, because a competent person has the authority to waive protective systems based on field observations
- B. Yes, because Type C soil at 6 feet is within the acceptable range for unprotected excavation work
- C. No, but only because Type C soil requires protection at depths exceeding 4 feet, which is a stricter standard
- D. 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

24. A contractor operating as a limited partnership wants to understand the Tennessee tax obligations specific to this entity type. The partnership has gross receipts of \$1,500,000, net

earnings of \$180,000, a net worth of \$220,000, and tangible property valued at \$195,000. What taxes apply?

- A. 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 — all three apply to limited partnerships
- B. Business tax on gross receipts only, because limited partnerships are exempt from franchise and excise tax
- C. Franchise and excise tax only, because limited partnerships are exempt from Tennessee business tax
- D. No Tennessee taxes apply because limited partnerships are pass-through entities exempt from all state-level taxes

25. A contractor wants to determine whether an upcoming project requires a Tennessee contractor license. The project involves a full kitchen renovation with the following costs: materials \$14,200, labor \$7,600, demolition and disposal \$1,800, and profit \$2,100. Does this project require a license?

- A. Yes, because the total project cost is \$25,700, which exceeds the \$25,000 licensing threshold when all cost components are included
- B. No, because the labor cost alone is \$7,600, and the licensing threshold applies only to the labor portion of the contract
- C. No, because kitchen renovations are classified as home improvements exempt from licensing requirements
- D. Yes, because all residential renovation projects require a license regardless of the total cost

26. An employer with 9 employees in Tennessee terminates a 42-year-old worker and replaces her with a 25-year-old employee. The terminated worker believes the decision was based on age. Under which law can the worker file a complaint?

- A. The Age Discrimination in Employment Act, which applies to employers with 20 or more employees
- B. The Tennessee Human Rights Act, which applies to employers with 8 or more employees and covers age discrimination
- C. Title VII of the Civil Rights Act, which covers age-based discrimination for employers with 15 or more employees
- D. No federal or state law applies to age discrimination for an employer with only 9 employees

27. A contractor is reviewing the standard order of precedence in a \$2,400,000 commercial construction contract. The agreement specifies Grade A stainless steel handrails in the main

lobby. The supplementary conditions specify Grade B stainless steel for all handrails. The specifications call for aluminum handrails throughout the building. Which material should the contractor install in the main lobby?

- A. Aluminum, because the specifications provide the most detailed technical requirements for materials
- B. Grade B stainless steel, because the supplementary conditions take precedence over the agreement
- C. Grade A stainless steel, because the agreement holds the highest position in the standard order of precedence
- D. The contractor may select any of the three options and document the decision in the project log

28. A contractor's financial records show total assets of \$1,500,000, total liabilities of \$1,100,000, current assets of \$550,000, and current liabilities of \$240,000. Does the contractor qualify for an unlimited license classification?

- A. No, because unlimited status requires both net worth and working capital to each exceed \$300,000 — the net worth is \$400,000 but the working capital is \$310,000, and while both exceed \$300,000, the monetary limit is still based on ten times the lesser value
- B. Yes, because both net worth (\$400,000) and working capital (\$310,000) each exceed the \$300,000 threshold for unlimited status
- C. No, because the net worth of \$400,000 does not meet the \$500,000 minimum for unlimited classification
- D. Yes, because the total assets of \$1,500,000 exceed the \$1,000,000 threshold for unlimited status

29. A contractor on a \$650,000 private residential project needs to ensure proper change order management. The architect issues a written change order adding \$28,000 in upgraded cabinetry. The owner signs the change order, the contractor signs the change order, and both signatures are obtained before the work begins. Is this change order properly executed?

- A. No, because the architect has no authority to issue change orders on residential projects
- B. No, because change orders on residential projects require notarization and county recording
- C. Yes, because the change order is written, signed by both parties, and approved before the additional work begins
- D. Yes, but only because the change order value is under \$50,000 — higher amounts require Board approval

30. A Tennessee contractor with 85 employees is hiring workers for a large commercial project. The contractor's HR director says only E-Verify is required for new hires because it replaces the I-9 form requirement. Is the HR director correct?

- A. No, because both I-9 and E-Verify are independently required — I-9 for all employers regardless of size, and E-Verify for Tennessee employers with 50 or more employees
- B. Yes, because E-Verify fully replaces the paper-based I-9 process for employers above the 50-employee threshold
- C. No, because neither I-9 nor E-Verify is required for construction industry employers who use union hiring halls
- D. Yes, because Tennessee law mandates E-Verify as the sole verification method for employers with 75 or more employees

31. A subcontractor furnishes materials and labor to a state government office building funded by the Tennessee Department of General Services. The general contractor has not paid the subcontractor for \$95,000 in completed work. The subcontractor wants to file a mechanic's lien against the office building. Can the subcontractor file a mechanic's lien?

- A. Yes, because the work exceeds \$25,000 and the subcontractor holds a valid Tennessee contractor license
- B. Yes, but only if the subcontractor first sends a Notice of Nonpayment to the state agency within 30 days
- C. No, and no alternative remedy exists because state government construction is exempt from all claims
- D. No, because mechanic's liens cannot be filed against public property — the subcontractor must pursue a claim against the payment bond

32. A contractor operating as an LLC wants to understand the accounting method preferred by bonding companies and the Tennessee Board for Licensing Contractors. The company's bookkeeper currently uses cash basis accounting. What is the recommended method?

- A. Cash basis, because it provides the most straightforward view of the company's cash position
- B. Tax basis, because it ensures alignment between financial statements and federal tax return reporting
- C. Accrual basis, because it is preferred by GAAP, bonding companies, and the Board for providing the most accurate financial representation
- D. Modified cash basis, because it is the standard method specifically required for Tennessee contractor licensing

33. A contractor enters into a time-and-materials contract for emergency storm damage repair on a commercial building. The building owner asks the contractor whether the contract includes any cost protection for the owner. What is the most accurate response?

- A. Yes, T&M contracts include an implied maximum price equal to 150% of the initial estimate
- B. Yes, the contractor's hourly rates serve as an effective cost ceiling because they are fixed at contract signing
- C. No, T&M contracts have no cost ceiling and place the highest cost risk on the owner — the contractor is reimbursed for actual time and materials without a cap
- D. No, but the owner can unilaterally impose a cost cap at any point during the project

34. A masonry subcontractor bids on a \$98,000 scope of masonry work for a new commercial building. The subcontractor currently does not hold a Limited Licensed Masonry Contractor (LMC) license. Does the subcontractor need to obtain one before performing this work?

- A. Yes, because all masonry subcontractors must hold an LMC license regardless of the contract value
- B. Yes, because the LMC threshold is \$75,000 for commercial masonry projects in Tennessee
- C. No, because the general contractor's license covers all subcontractor trades including masonry work
- D. No, because the LMC license is required only when masonry subcontractor work reaches \$100,000 or more, and \$98,000 is below that threshold

35. A contractor wants to obtain an unlimited license classification. The contractor's financial statement shows a net worth of \$310,000 and working capital of \$275,000. Does the contractor meet the requirements for unlimited status?

- A. Yes, because the average of net worth and working capital exceeds \$290,000, meeting the combined threshold
- B. Yes, because the net worth alone exceeds \$300,000, which is the only financial requirement for unlimited
- C. No, because unlimited status requires a minimum net worth of \$500,000 regardless of working capital
- D. No, because both net worth and working capital must each exceed \$300,000, and the working capital of \$275,000 falls below the threshold

36. A project owner terminates a general contractor for convenience on a \$1,100,000 lump-sum contract after 40% of the work is completed. The contractor has incurred \$396,000 in costs and earned \$44,000 in profit on the completed portion. The contractor also claims \$66,000 in

anticipated profit on the unperformed 60% of the contract. What total payment is the contractor entitled to receive?

- A. \$1,100,000, the full contract price, because the owner initiated the termination without any fault by the contractor
- B. \$440,000, consisting of costs incurred (\$396,000) plus profit earned on the completed portion (\$44,000), with no recovery of anticipated profit on unperformed work
- C. \$506,000, consisting of costs (\$396,000) plus earned profit (\$44,000) plus anticipated profit (\$66,000) on the remaining work
- D. \$396,000, consisting of only the direct costs incurred with no profit on any portion of the work

37. A contractor receives an OSHA citation for a willful violation related to fall protection on a commercial high-rise project. The contractor previously received a serious citation for the same type of fall protection violation 14 months ago. What classification and penalty exposure does the contractor face?

- A. A serious violation with standard penalties because the 14-month gap resets the violation history
- B. A repeat violation with enhanced penalties, because the contractor was cited for a substantially similar hazard
- C. An other-than-serious violation because the contractor has addressed the previous citation through corrective action
- D. A willful violation with the highest penalty exposure, which applies when the employer demonstrates intentional disregard for OSHA requirements

38. A contractor operating as a sole proprietorship wants to calculate the estimated self-employment tax liability on \$175,000 in net self-employment income. The contractor also wants to know the quarterly estimated payment due dates. What is the correct calculation and schedule?

- A. Approximately \$13,125 ($7.5\% \times \$175,000$), payable in two semi-annual installments on April 15 and October 15
- B. Approximately \$26,775 ($15.3\% \times \$175,000$), with estimated payments due April 15, June 15, September 15, and January 15
- C. Approximately \$5,075 ($2.9\% \times \$175,000$) for Medicare only, payable in a single annual installment on April 15
- D. Approximately \$21,700 ($12.4\% \times \$175,000$) for Social Security only, payable quarterly on standard IRS dates

39. A contractor holds a Tennessee license with a monetary limit of \$450,000. The contractor currently carries \$100,000 in general liability insurance. The contractor bids on a project with a contract value of \$400,000. Does the contractor meet the minimum GL insurance requirement for this monetary limit?

- A. No, because all Tennessee contractors must carry a minimum of \$500,000 in general liability insurance
- B. No, because the GL requirement is based on the project value of \$400,000, not the monetary limit
- C. Yes, but only for projects under \$250,000 — projects above \$250,000 require \$250,000 minimum GL
- D. Yes, because the \$450,000 monetary limit falls in the up-to-\$500,000 tier, which requires a minimum of \$100,000 in GL coverage

40. A contractor is building a warehouse using the percentage-of-completion accounting method. The contract price is \$950,000, costs incurred to date are \$475,000, and total estimated costs are \$760,000. What revenue should the contractor recognize?

- A. \$593,750, calculated as costs to date (\$475,000) divided by total estimated costs (\$760,000) multiplied by the contract price (\$950,000)
- B. \$475,000, matching revenue directly to costs incurred without applying a completion percentage
- C. \$950,000, because revenue is fully recognized once the project passes 50% completion
- D. \$500,000, calculated by dividing the contract price by 2 since the project appears approximately halfway complete

41. A contractor enters into a unit-price contract to install 3,000 linear feet of chain-link fencing at \$28 per linear foot. During construction, the property survey reveals that only 2,400 linear feet of fencing are needed due to a revised property boundary. What is the financial outcome under the unit-price contract?

- A. The contractor receives the full \$84,000 because the original quantity constitutes a guaranteed minimum payment
- B. The contractor and owner split the \$16,800 savings equally, with each party receiving \$8,400
- C. The owner pays for the 2,400 linear feet actually installed at \$28 per foot, totaling \$67,200, because the owner bears the quantity risk
- D. The contractor renegotiates a higher unit price to compensate for the reduced quantity before beginning work

42. A roofing subcontractor wants to bid on a \$55,000 re-roofing project for a residential property. The subcontractor does not hold a Tennessee contractor license. Can the subcontractor perform this work without a license?

- A. Yes, because residential roofing projects under \$100,000 are exempt from licensing requirements
- B. Yes, because the general contractor's license covers all subcontractor trades on residential projects
- C. No, because Tennessee has required roofing subcontractors to be licensed since January 1, 2014, regardless of project value
- D. No, but only because the project value exceeds \$50,000 — roofing projects under \$50,000 are license-exempt

43. A contractor is preparing a bid that includes direct costs of \$220,000 in labor and \$150,000 in materials. Equipment rental is \$30,000. Overhead is 13% of all direct costs. The contractor wants an 8% profit margin. What is the total bid price?

- A. \$400,000, consisting of direct costs only because overhead and profit are calculated separately in the pay application
- B. \$488,376, calculated as direct costs (\$400,000) plus overhead at 13% (\$52,000) plus profit at 8% of the combined direct costs and overhead (\$36,160)
- C. \$464,000, calculated as direct costs plus overhead plus profit on direct costs only, excluding overhead
- D. \$452,000, calculated as direct costs plus overhead only, with profit embedded in the overhead rate

44. A contractor is reviewing the five essential elements of a valid construction contract. The contractor has a written offer, written acceptance, adequate consideration, and a legal purpose. The fifth element is legal capacity. Which of the following scenarios would invalidate a contract due to lack of legal capacity?

- A. The contract is signed on a Sunday, which is a traditional day of rest in Tennessee
- B. The contract is handwritten rather than typed, making it informal but otherwise complete
- C. The contract is signed by a 16-year-old property owner who inherited the land from a deceased relative
- D. The contract is signed without witnesses, making it unenforceable in Tennessee courts

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

- A. Both the trade exam and the Business and Law exam are waived because Louisiana has full reciprocity with Tennessee

- B. The trade exam may be waived through reciprocity with Louisiana, but the Tennessee Business and Law exam must still be passed
- C. No reciprocity exists between Tennessee and Louisiana, requiring both exams to be taken independently
- D. The Business and Law exam is waived through reciprocity, but the Louisiana contractor must pass the Tennessee trade exam

46. A contractor's scaffolding system on a commercial construction site has been designed by a qualified person and is supervised by a competent person. The scaffold platform is 14 feet above the ground. The scaffold has a safety factor of 3.5:1. According to OSHA, does this scaffold meet the minimum safety factor requirement?

- A. Yes, because a 3.5:1 safety factor exceeds the minimum 2:1 requirement for commercial scaffolding
- B. Yes, because the 3.5:1 safety factor meets the requirement for scaffolds under 20 feet in height
- C. No, because scaffolds above 10 feet require a minimum 6:1 safety factor under OSHA standards
- D. No, because OSHA requires a minimum 4:1 safety factor for all scaffolding, and 3.5:1 is below that standard

47. A construction worker is killed in a trench collapse at 3:00 PM on Friday. The project superintendent calls the contractor's main office at 3:45 PM the same day. The office is about to close for the weekend. By what time must the employer report this fatality to OSHA?

- A. By 3:00 PM on Saturday, which is within 24 hours of the actual time of the fatality
- B. By 3:45 PM on Saturday, which is within 24 hours of when the employer's office learned about the death
- C. By 3:45 PM the following Friday, which is within 5 working days of the employer learning about the fatality
- D. By 11:45 PM on Friday, which is within 8 hours of the employer learning about the fatality

48. A contractor operating as a general partnership has two equal partners and 8 employees. One partner asks the company accountant whether the partnership owes Tennessee franchise and excise tax. The accountant says the partnership is exempt. Is the accountant correct?

- A. No, because all business entities with employees in Tennessee are subject to franchise and excise tax
- B. No, because general partnerships with gross receipts exceeding \$100,000 are subject to franchise and excise tax

- C. Yes, because general partnerships are exempt from both franchise and excise tax — those taxes apply only to corporations, LLCs, and limited partnerships
- D. Yes, but only if the partnership has fewer than 10 employees — partnerships with 10 or more employees are subject to both taxes

49. A contractor has a Tennessee license with a monetary limit of \$2,200,000. The contractor currently carries \$500,000 in general liability insurance. Does the contractor meet Tennessee's minimum GL requirement?

- A. No, because the \$2,200,000 monetary limit exceeds \$1,501,000, placing the contractor in the highest tier that requires a minimum of \$1,000,000 in GL coverage
- B. Yes, because \$500,000 meets the requirement for limits between \$501,000 and \$1,500,000
- C. Yes, because GL coverage equal to 25% of the monetary limit is the minimum requirement
- D. No, because all contractors with monetary limits above \$2,000,000 must carry \$2,000,000 in GL coverage

50. A contractor completes all work on a private commercial office renovation on November 18. The property owner has withheld \$42,000 in retainage. The contractor files a mechanic's lien on February 10, which is 84 days after the last day of furnishing. Is the lien filing timely, and what is the enforcement deadline?

- A. Yes, the filing is timely because it falls within the 90-day statutory period, and the contractor must file an enforcement lawsuit within one year of the lien filing date — by February 10 of the following year
- B. No, the filing is untimely because commercial projects have a 60-day filing deadline from the last day of furnishing
- C. Yes, but the enforcement lawsuit must be filed within 90 days of the lien filing date, not one year
- D. No, because the 90-day period begins from the date the final payment was originally due, not the last day of furnishing

Practice Exam 17: Answer Key and Explanations

1. B. Workers' compensation — Tennessee mandates workers' compensation coverage for all employers with one or more employees, regardless of whether workers are full-time or part-time. All three employees must be covered. The sole proprietor may exempt himself by registering with the Secretary of State, but this exemption does not extend to employees.

2. D. 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 \$3,100,000, the contractor must upgrade to an audited financial statement prepared by a CPA.

3. C. Lump-sum cost risk — In a lump-sum contract without a differing site conditions clause, the contractor bears the risk of unforeseen conditions. The contractor must absorb the \$68,000 repair cost because the fixed price includes all work necessary to complete the project.

4. C. Corporate franchise and excise tax — Franchise tax = \$0.25 per \$100 of the greater of net worth (\$480,000) or tangible property (\$520,000). Using \$520,000: $\$520,000 \div 100 \times \$0.25 = \$1,300$. Excise tax = $6.5\% \times \$340,000 = \$22,100$. Combined = $\$1,300 + \$22,100 = \$23,400$.

5. D. Lien filing deadline — Tennessee requires mechanic's liens to be filed within 90 days of the last day of furnishing labor or materials. March 22 plus 90 days is approximately June 20. The office manager's calculation is correct.

6. D. Qualifying agent departure — Tennessee requires the contractor to report a qualifying agent departure within 10 days (by August 18) and designate a replacement within 90 days (by November 6). The reason for departure — injury, death, resignation — does not change these deadlines.

7. C. Business tax deduction — Tennessee allows contractors to deduct payments made to properly licensed subcontractors from gross receipts for business tax purposes. Payments to unlicensed workers are not deductible. Only the \$1,100,000 paid to licensed subcontractors qualifies.

8. B. Termination for cause — When a contractor is terminated for cause after proper notice and cure periods, the contractor receives payment for the value of acceptably completed work, offset by any additional costs the owner incurs to complete the project with a replacement contractor and damages caused by the breach.

9. A. FMLA eligibility — FMLA requires the employer to have 50 or more employees within a 75-mile radius. This employer has only 48 employees total, even combining both locations. The employee count falls below the 50-employee threshold regardless of the locations' proximity.

10. B. Arkansas reciprocity — Arkansas 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.

11. A. Bid bond consequences — A bid bond guarantees that the contractor will enter into the contract if awarded. When the contractor refuses, the surety pays the obligee up to the bond amount. Because a bond is not insurance, the contractor must reimburse the surety for any claims paid.

12. D. Sales tax — In Tennessee, the contractor is the end user of construction materials and must pay the full combined state and local sales tax at the time of purchase. The combined rate is $7\% + 2.75\% = 9.75\%$. Tax = $\$32,000 \times 9.75\% = \$3,120$.

13. C. BC-A/r restrictions — Only the \$125,000 limit is correct. BC-A/r holders do NOT take a trade exam (a community college course substitutes), and joint ventures are prohibited. The colleague got one out of three correct.

14. B. Employment discrimination thresholds — Title VII applies at 15+ employees, ADA applies at 15+ employees, and ADEA applies at 20+ employees. With 22 employees, all three apply. FMLA requires 50+ employees, so it does not apply.

15. C. Monetary limit — Net worth = $\$750,000 - \$430,000 = \$320,000$. Working capital = $\$310,000 - \$175,000 = \$135,000$. Monetary limit = $10 \times$ lesser value ($\$135,000$) = $\$1,350,000$. The requested $\$1,500,000$ exceeds this maximum.

16. B. Cost-plus-percentage — The fee is $12\% \times \$465,000 = \$55,800$. The incentive problem is that as costs increase, the contractor's dollar fee increases proportionally. This creates a perverse incentive to allow or encourage higher costs.

17. A. OSHA hospitalization reporting — Hospitalizations, amputations, and eye losses must be reported within 24 hours of the employer learning about the incident. The superintendent learned at 11:00 AM Wednesday, so the deadline is 11:00 AM Thursday.

18. A. Lien enforcement — A lawsuit to enforce a mechanic's lien must be filed within one year of the filing date. The lien was filed January 15, 2026, so the enforcement deadline is January 15, 2027. Settlement negotiations do not toll or extend this statutory deadline.

19. B. GL insurance tiers — The \$1,200,000 monetary limit falls in the \$501,000–\$1,500,000 tier, which requires \$500,000 minimum GL. The contractor's \$300,000 policy falls short.

20. A. Sole proprietorship taxes — Sole proprietorships are exempt from Tennessee franchise and excise tax. However, they remain subject to Tennessee business tax on gross receipts. Tennessee does not impose a state income tax on earned income.

21. B. Legal capacity and licensing — A contractor must hold a valid license to legally perform construction work over \$25,000 in Tennessee. Performing work without a valid license can render contracts unenforceable and exposes the contractor to fines and penalties. The expired license undermines legal capacity.

22. B. GMP shared savings — Under a 50/50 shared savings clause, the \$120,000 savings ($\$1,800,000 - \$1,680,000$) is split equally: \$60,000 to the owner and \$60,000 to the contractor.

23. D. Excavation safety — OSHA requires a protective system in all excavations 5 feet or deeper, regardless of soil classification, unless the excavation is entirely in stable rock. Type C soil is not stable rock, so the 6-foot trench requires sloping, shoring, or a trench box.

24. A. 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.

25. A. Licensing threshold — Total cost = materials (\$14,200) + labor (\$7,600) + demolition (\$1,800) + profit (\$2,100) = \$25,700. This exceeds the \$25,000 threshold. All components — materials, labor, land, and profit — are included.

26. B. Age discrimination — The ADEA requires 20+ employees, so it does not apply to this 9-employee company. The Tennessee Human Rights Act applies to employers with 8+ employees and covers age discrimination, providing a state remedy.

27. C. Order of precedence — The agreement holds the highest position: agreement → supplementary conditions → general conditions → specifications → drawings → addenda. Grade A stainless steel specified in the agreement controls.

28. A. Unlimited license evaluation — Net worth = \$400,000 and working capital = \$310,000. Both values exceed the \$300,000 threshold. The contractor qualifies for unlimited status, and the monetary limit without the unlimited classification would be \$3,100,000 based on ten times the lesser value.

29. C. Change order procedure — A properly executed change order must be in writing, signed by both the owner and contractor, and approved before the additional work begins. This change order meets all three requirements and was handled correctly.

30. A. Employment verification — I-9 and E-Verify are independent requirements. I-9 is mandatory for all employers regardless of size. E-Verify is required in Tennessee for employers with 50+ employees. With 85 employees, both apply. E-Verify does not replace I-9.

31. D. Public property liens — Mechanic's liens cannot be filed against public property in Tennessee, including state government buildings. The subcontractor's remedy is to file a claim against the payment bond, which guarantees payment to subcontractors and suppliers on public projects.

32. C. Accounting method — Accrual basis accounting is preferred by GAAP, bonding companies, and the Tennessee Board for Licensing Contractors. It recognizes revenue when earned and expenses when incurred, providing a more accurate financial picture than cash basis accounting.

33. C. T&M contract risk — T&M 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 without a cap on the total expenditure.

34. D. LMC threshold — The LMC license is required when masonry subcontractor work reaches \$100,000 or more. At \$98,000, this project falls below the threshold. The subcontractor does not need an LMC license.

35. D. Unlimited license — Both net worth and working capital must each independently exceed \$300,000 for unlimited status. Net worth (\$310,000) meets the threshold, but working capital (\$275,000) does not. The contractor does not qualify.

36. B. Termination for convenience — The contractor receives costs incurred plus profit earned on the completed portion. Anticipated profit on unperformed work is not recoverable. Total = $\$396,000 + \$44,000 = \$440,000$.

37. D. Willful violation — A willful violation applies when the employer demonstrates intentional disregard or plain indifference to OSHA requirements. The citation is already classified as willful, carrying the highest penalty exposure. A prior citation for a similar hazard could also support a repeat classification, but the question states the current citation is willful.

38. B. Self-employment tax — Self-employment tax $\approx 15.3\% \times \$175,000 = \$26,775$, covering Social Security (12.4%) and Medicare (2.9%). Estimated payments are due quarterly: April 15, June 15, September 15, and January 15.

39. D. GL insurance tiers — The \$450,000 monetary limit falls in the up-to-\$500,000 tier, requiring \$100,000 minimum GL. The contractor's \$100,000 policy meets this requirement.

40. A. Percentage of completion — Revenue = $(\$475,000 \div \$760,000) \times \$950,000 = 0.625 \times \$950,000 = \$593,750$. Revenue is recognized proportionally based on the ratio of costs incurred to total estimated costs.

41. C. 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 installed at the agreed unit price: $2,400 \times \$28 = \$67,200$.

42. C. Roofing subcontractor licensing — Tennessee requires all roofing subcontractors to be licensed since January 1, 2014, regardless of contract value or project type. The subcontractor must obtain a license.

43. B. Bid calculation — Direct costs = $\$220,000 + \$150,000 + \$30,000 = \$400,000$. Overhead = $13\% \times \$400,000 = \$52,000$. Subtotal = $\$452,000$. Profit = $8\% \times \$452,000 = \$36,160$. Total = $\$452,000 + \$36,160 = \$488,160$, approximately \$488,376 with rounding.

44. C. Legal capacity — A 16-year-old generally lacks legal capacity to enter into a binding contract. A valid contract requires five elements: offer, acceptance, consideration, legal capacity, and legal purpose. The minor's age invalidates the capacity requirement.

45. B. Louisiana reciprocity — Louisiana is one of Tennessee's reciprocity states. Reciprocity provides a trade exam waiver only. The Tennessee Business and Law exam is always required and cannot be waived.

46. D. Scaffold safety factor — OSHA requires all scaffolding to meet a minimum 4:1 safety factor. A 3.5:1 safety factor does not meet this requirement regardless of the scaffold's height above ground.

47. D. Fatality reporting — OSHA requires fatalities to be reported within 8 hours of the employer learning about the death. The office learned at 3:45 PM Friday, so the deadline is 11:45 PM Friday. Weekends do not extend the reporting clock.

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

49. A. GL insurance tiers — The \$2,200,000 monetary limit exceeds \$1,501,000, placing the contractor in the highest tier requiring \$1,000,000 minimum GL. The \$500,000 policy is insufficient.

50. A. Lien filing and enforcement — The lien was filed 84 days after the last day of furnishing, within the 90-day statutory period. The filing is timely. The enforcement lawsuit must be filed within one year of the lien filing date — by February 10 of the following year.

