

PRACTICE EXAM 19: TENNESSEE BUSINESS AND LAW SIMULATION (50 QUESTIONS)

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

1. A contractor operating as an LLC has total assets of \$1,100,000, total liabilities of \$720,000, current assets of \$430,000, and current liabilities of \$92,000. The contractor wants to know whether unlimited license status is achievable. What is the correct analysis?

- A. The contractor qualifies for unlimited status because both net worth (\$380,000) and working capital (\$338,000) each exceed the \$300,000 threshold
- B. The contractor does not qualify because the working capital of \$338,000 does not meet the \$350,000 minimum for unlimited
- C. The contractor qualifies because net worth alone exceeding \$300,000 is the only requirement for unlimited status
- D. The contractor does not qualify because unlimited status requires both values to exceed \$400,000

2. A general contractor on a private commercial project receives a written change order from the project architect to upgrade the lobby flooring from ceramic tile to natural stone, adding \$24,000 to the contract. The owner signs the change order and the contractor countersigns before beginning the upgrade work. Which statement best describes this change order?

- A. The change order is invalid because the architect has no authority to initiate changes on a commercial project
- B. The change order was properly executed because it is written, signed by both parties, and approved before the work began
- C. The change order is invalid because flooring upgrades must be processed as a separate contract amendment
- D. The change order requires Board approval because it increases the contract price by more than \$20,000

3. A construction company organized as a limited partnership has gross receipts of \$2,600,000, net earnings of \$315,000, a net worth of \$380,000, and tangible property in Tennessee valued at \$340,000. The company's accountant says only business tax on gross receipts applies because limited partnerships are pass-through entities. Is the accountant correct?

- A. Yes, because limited partnerships receive identical tax treatment to general partnerships in Tennessee
- B. Yes, because pass-through entities are subject only to business tax regardless of organizational structure
- C. No, but only franchise and excise tax apply — limited partnerships are exempt from Tennessee business tax
- D. No, because limited partnerships owe all three: 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

4. A contractor holds a Tennessee license with a monetary limit of \$550,000. The contractor currently carries \$100,000 in general liability insurance. The contractor bids on a \$500,000 commercial project. Does the contractor meet the minimum GL insurance requirement?

- A. Yes, because \$100,000 is the minimum GL for all Tennessee contractors regardless of monetary limit
- B. No, because the \$550,000 monetary limit exceeds \$500,000, placing the contractor in the \$501,000–\$1,500,000 tier that requires \$500,000 minimum GL coverage
- C. Yes, because GL requirements are based on individual project values rather than the contractor's monetary limit
- D. No, because all contractors bidding on projects above \$250,000 must carry \$500,000 minimum GL

5. A contractor is hired to renovate a historic downtown building under a cost-plus-percentage contract with a 13% fee. The estimated cost is \$550,000. During construction, the contractor discovers that premium-grade replacement windows are available at \$35,000 more than the specified standard windows. The contractor recommends the premium windows to the owner. What conflict of interest exists?

- A. No conflict exists because the owner makes all final material selection decisions independently
- B. No conflict exists because the contractor disclosed the price difference transparently to the owner
- C. A minor conflict exists, but it is eliminated if the contractor provides three competitive bids for the windows
- D. A conflict exists because the 13% fee on the \$35,000 increase generates \$4,550 in additional fee income, giving the contractor a financial incentive to recommend more expensive options

6. A Tennessee employer with 7 full-time employees operates a commercial construction company. An employee who has worked for the company for 3 years is terminated. The

employee, who is Hispanic, believes the termination was racially motivated. Under which law can the employee file a discrimination claim?

- A. The Tennessee Human Rights Act, which applies to employers with 8 or more employees, does not cover this 7-employee company — however, 42 U.S.C. § 1981 prohibits racial discrimination regardless of employer size
- B. Title VII of the Civil Rights Act, which applies to all employers regardless of employee count
- C. The ADEA, which covers all forms of employment discrimination for employers with 5 or more employees
- D. No federal or state law provides a remedy for racial discrimination by employers with fewer than 8 employees

7. A subcontractor furnishes labor and materials to a new private office building project. The subcontractor has a direct contract with the general contractor but no contract with the building owner. The subcontractor's last day of furnishing is April 14. What steps must the subcontractor take to preserve mechanic's lien rights as a remote claimant?

- A. File a mechanic's lien directly with the county register within 90 days — no prior notice is required for subcontractors
- B. Send a Notice of Nonpayment to the prime contractor or owner within 90 days of the last day of furnishing, and then file the mechanic's lien within 90 days of the last furnishing date
- C. Send a demand letter by certified mail to the general contractor within 60 days of the final invoice date
- D. File a breach of contract lawsuit against the general contractor, which automatically creates a lien on the property

8. A contractor operating as a C-corporation has net earnings of \$410,000, a net worth of \$560,000, and tangible property in Tennessee valued at \$490,000. What is the company's combined Tennessee franchise and excise tax liability?

- A. \$1,225, consisting of franchise tax only because C-corporations are exempt from excise tax in Tennessee
- B. \$26,650, consisting of excise tax only because franchise tax applies only to LLCs and limited partnerships
- C. \$28,050, consisting of \$1,400 in franchise tax based on the net worth of \$560,000 plus \$26,650 in excise tax at 6.5% of net earnings
- D. \$0, because C-corporations with net earnings under \$500,000 are exempt from both franchise and excise tax

9. A contractor files a mechanic's lien on a private commercial property on August 20, 2025. The contractor and property owner enter into a formal mediation agreement in February 2026. The mediation process extends through September 2026. By what date must the contractor file a lawsuit to enforce the lien?

- A. By February 20, 2026, which is 6 months from the date the lien was filed on the property
- B. By August 20, 2027, which is two years from the filing date because mediation extends the enforcement period
- C. By August 20, 2026, which is one year from the filing date — mediation does not toll or extend this statutory deadline
- D. By November 18, 2025, which is 90 days from the lien filing date under Tennessee's accelerated enforcement rule

10. A contractor wants to determine whether a deck construction project requires a Tennessee contractor license. The project involves: pressure-treated lumber \$9,800, labor \$10,200, hardware and fasteners \$1,400, concrete footings \$2,100, and profit \$1,800. Does this project require a license?

- A. No, because residential deck construction is classified as a home improvement exempt from contractor licensing
- B. No, because the labor portion of \$10,200 is under \$25,000 and the licensing threshold applies only to labor
- C. Yes, because all structural projects attached to a residential dwelling require a license regardless of cost
- D. Yes, because the total project cost is \$25,300 (lumber + labor + hardware + footings + profit), which exceeds the \$25,000 licensing threshold

11. A contractor's qualifying agent submits a written resignation effective December 15. The contractor has 9 active projects in various stages. The contractor's operations manager says the company has until March 15 to report the departure to the Board. Is the operations manager correct?

- A. No, because the departure must be reported within 10 days by December 25, and a replacement must be designated within 90 days by March 15
- B. Yes, because contractors with more than 5 active projects receive an extended 90-day reporting window
- C. No, because the departure must be reported within 5 business days and a replacement within 60 days
- D. Yes, because the 90-day reporting period applies to all qualifying agent departures in Tennessee

12. A contractor purchases \$56,000 in mechanical equipment for a commercial HVAC installation project. The state sales tax rate is 7% and the local rate is 2.5%. The building owner operates as a nonprofit hospital with a valid Tennessee sales tax exemption. Can the contractor use the hospital's exemption?

- A. Yes, because materials installed in a tax-exempt facility inherit the owner's exemption status at purchase
- B. Yes, if the contractor provides the distributor with the hospital's exemption certificate and a signed affidavit
- C. No, but the contractor can apply for a retroactive sales tax refund after project completion
- D. No, because the contractor is the end user of construction materials in Tennessee and must pay the combined 9.5% sales tax of \$5,320 at purchase regardless of the owner's exempt status

13. A construction crew is excavating a water main trench that reaches 5 feet 6 inches deep in soil classified as Type A. The excavation superintendent says Type A soil is stable and no protective system is needed at this shallow depth. Is the superintendent correct?

- A. Yes, because Type A soil is cohesive and no protective system is required below 8 feet in this classification
- B. Yes, because the trench depth is within 6 inches of the 5-foot threshold, allowing a competent person to waive protection
- C. No, because OSHA requires a protective system in all excavations 5 feet or deeper regardless of soil type unless the excavation is entirely in stable rock
- D. No, because Type A soil requires protection at depths exceeding 4 feet under Tennessee-specific OSHA standards

14. A contractor enters into a \$780,000 lump-sum contract for a restaurant build-out. During demolition, the contractor discovers asbestos-containing materials behind the existing walls that were not identified in the pre-construction environmental survey. Abatement will cost \$55,000. The contract contains no differing site conditions clause. Who bears the abatement cost?

- A. The owner bears the cost because environmental contamination is always the property owner's legal responsibility
- B. The cost is split equally between the owner and contractor under the implied environmental liability doctrine
- C. The contractor can refuse to continue work until the owner funds the abatement as a separate contract
- D. The contractor bears the cost because in a lump-sum contract without a differing site conditions clause, the contractor assumes the risk of unforeseen conditions

15. An employer with 55 employees at a single location in Memphis has a worker who has been employed for 8 months. The worker requests 12 weeks of unpaid FMLA leave for a personal serious health condition. Is the worker eligible?

- A. Yes, because the employer meets the 50-employee threshold and a serious health condition is a qualifying event
- B. No, because FMLA requires the employee to have worked for the employer for at least 12 months, and this worker has only 8 months of service
- C. Yes, because the 12-month employment requirement is waived for workers with documented serious health conditions
- D. No, because FMLA leave for a personal health condition is limited to 6 weeks instead of the standard 12 weeks

16. A contractor wants to bid on a project requiring a monetary limit of \$3,400,000. The contractor currently submits reviewed financial statements. What type of financial statement must the contractor provide at this limit level?

- A. A reviewed statement remains sufficient because the \$3,000,000 audit threshold applies only to publicly traded companies
- B. An audited financial statement is required because monetary limits exceeding \$3,000,000 must be supported by an audit
- C. A compiled statement prepared by any CPA is acceptable for limits between \$3,000,000 and \$5,000,000
- D. A self-prepared statement with a sworn affidavit of accuracy is permitted for limits up to \$4,000,000

17. A contractor licensed in South Carolina wants to obtain a Tennessee license. The contractor holds a NASCLA Accredited Commercial Examination credential and has passed the South Carolina trade exam. What testing requirements apply in Tennessee?

- A. The trade exam may be waived through reciprocity with South Carolina, the NASCLA credential is accepted for BC-B classification, but the Tennessee Business and Law exam must still be passed
- B. Both the trade exam and Business and Law exam are fully waived because the NASCLA credential provides complete reciprocity
- C. The NASCLA credential waives the Business and Law exam, but the trade exam must still be taken in Tennessee
- D. No reciprocity exists with South Carolina, and both exams must be taken independently in Tennessee

18. A contractor operating as a sole proprietorship wants to understand the Tennessee state tax obligations specific to this business structure. The sole proprietorship has gross receipts of

\$620,000, net earnings of \$85,000, and tangible property valued at \$95,000. What Tennessee taxes apply?

- A. Business tax on gross receipts only — sole proprietorships are exempt from both franchise and excise tax in Tennessee
- B. All three taxes — business tax, franchise tax, and excise tax — because all business entities with employees owe them
- C. Franchise and excise tax only, because sole proprietors with gross receipts under \$1,000,000 are exempt from business tax
- D. No Tennessee state taxes apply because sole proprietorships are pure pass-through entities at the state level

19. A contractor enters into a unit-price contract to install 800 linear feet of copper water service line at \$72 per linear foot. During installation, the engineer revises the design, reducing the required length to 640 linear feet. The contractor argues for payment on the original 800 linear feet. What is the correct outcome under a unit-price contract?

- A. The contractor receives payment for the full 800 linear feet because the contract quantity is guaranteed
- B. The contractor receives payment for 640 linear feet plus a 15% cancellation fee on the uninstalled 160 feet
- C. The owner pays for the 640 linear feet actually installed at \$72 per foot, totaling \$46,080, because the owner bears the quantity risk in a unit-price contract
- D. The contractor and owner negotiate a higher unit price to compensate for the reduced total quantity

20. A contractor's financial statement shows total assets of \$950,000, total liabilities of \$615,000, current assets of \$385,000, and current liabilities of \$218,000. The contractor applies for a monetary limit of \$1,800,000. Can the Board approve this limit?

- A. No, because the monetary limit is ten times the lesser of net worth or working capital — working capital is \$167,000, yielding a maximum limit of \$1,670,000
- B. Yes, because the net worth of \$335,000 supports a limit of \$3,350,000, which exceeds the requested amount
- C. Yes, because total assets of \$950,000 are sufficient to support any limit under \$2,000,000
- D. No, because the Board requires a minimum current ratio of 2.0 for limits above \$1,500,000

21. A contractor enters into a cost-plus-fixed-fee contract with a \$48,000 fixed fee for a \$580,000 estimated commercial renovation. During construction, material costs drop significantly, bringing actual costs to \$510,000. What fee does the contractor receive?

- A. \$42,207, reduced proportionally because actual costs came in below the original estimate
- B. \$51,000, recalculated as 10% of actual costs because the fixed fee converts when costs change significantly
- C. \$48,000 plus a \$7,000 performance bonus for completing the project under the estimated cost
- D. \$48,000, because a fixed fee remains constant regardless of whether actual costs increase or decrease from the estimate

22. A contractor is reviewing the standard order of precedence for a \$4,200,000 commercial project. The general conditions specify that all exterior windows must be double-pane insulated glass. The specifications call for triple-pane insulated glass for all exterior windows. The supplementary conditions are silent on window specifications. Which window type should the contractor install?

- A. Double-pane, because the general conditions establish baseline requirements that apply when other documents are silent
- B. The contractor may choose either option and document the selection in the daily construction log
- C. Triple-pane, because specifications take precedence over general conditions in the standard order of precedence
- D. Double-pane, because the general conditions take precedence over specifications in the contract hierarchy

23. An OSHA compliance officer inspects a commercial construction site and discovers that the contractor has been cited twice in the past 18 months for failing to provide fall protection guardrails on elevated work platforms. The current inspection reveals the same deficiency. How will OSHA most likely classify this new violation?

- A. As a serious violation with standard penalties because each citation is evaluated independently
- B. As a willful violation because three occurrences demonstrate intentional disregard for worker safety
- C. As an other-than-serious violation because the repeated nature reduces the classification severity
- D. As a repeat violation because the contractor has been previously cited for a substantially similar hazard

24. A contractor is building a retail strip mall under a guaranteed maximum price (GMP) contract set at \$1,500,000. The contract includes a 50/50 shared savings clause. Actual construction costs total \$1,440,000. How are the savings distributed?

- A. The contractor receives the entire \$60,000 as a performance incentive for completing under the ceiling
- B. The owner receives \$30,000 and the contractor receives \$30,000, splitting the \$60,000 savings equally
- C. The owner receives the full \$60,000 because the GMP serves exclusively as the owner's cost protection mechanism
- D. The savings are deposited into a shared escrow account until all warranty claims are resolved

25. A contractor operating as a corporation wants to calculate the franchise tax liability. The corporation has a net worth of \$440,000 and tangible property in Tennessee valued at \$510,000. What is the franchise tax amount?

- A. \$1,100, calculated at \$0.25 per \$100 of net worth because franchise tax always uses net worth as the base
- B. \$100, the minimum franchise tax regardless of the corporation's financial size or property holdings
- C. \$1,275, calculated at \$0.25 per \$100 of tangible property of \$510,000 because it is the greater value
- D. \$2,375, calculated at \$0.25 per \$100 of the combined net worth and tangible property

26. A masonry subcontractor is bidding on a \$108,000 scope of masonry work for a new commercial warehouse project. The subcontractor does not currently hold a Limited Licensed Masonry Contractor license. Does the subcontractor need an LMC license?

- A. No, because the general contractor's license covers all masonry subcontractor work on commercial projects
- B. Yes, because the LMC license is required when masonry subcontractor work reaches \$100,000 or more
- C. No, because the LMC threshold is \$125,000 for commercial masonry projects in Tennessee
- D. Yes, because all masonry subcontractors must hold an LMC license regardless of the contract value

27. A contractor executes a \$1,300,000 stipulated-sum contract for a commercial warehouse. After completing 55% of the work, the owner terminates the contractor for convenience. The contractor has incurred \$643,500 in costs and earned \$71,500 in profit on the completed work. The contractor claims \$87,750 in anticipated profit on the unperformed 45%. What is the contractor entitled to receive?

- A. \$1,300,000, the full contract price, because the owner terminated without any contractor default

- B. \$802,750, consisting of costs plus earned profit plus anticipated profit on the unperformed work
- C. \$643,500, consisting of only the direct costs with no profit recovery on any portion of the contract
- D. \$715,000, consisting of costs incurred (\$643,500) plus profit earned on the completed portion (\$71,500), with no recovery of anticipated profit on unperformed work

28. A contractor is building a commercial parking garage. A scaffold platform on the project stands 15 feet above ground level. The scaffold was designed by the site superintendent, who has 20 years of construction experience but no formal engineering training. According to OSHA, who must design the scaffold?

- A. Any person with 10 or more years of construction experience can design scaffolding under OSHA standards
- B. The site superintendent's design is acceptable because OSHA requires only a competent person for scaffold oversight
- C. A licensed professional engineer must design all scaffolds regardless of height or complexity
- D. A qualified person must design the scaffold — OSHA requires someone with specific knowledge, training, and experience in scaffold design, not merely general construction experience

29. A contractor has a net worth of \$290,000 and working capital of \$340,000. The contractor applies for an unlimited license classification. Does the contractor qualify?

- A. Yes, because the working capital of \$340,000 exceeds \$300,000 and only one value needs to exceed the threshold
- B. Yes, because the average of \$290,000 and \$340,000 exceeds \$300,000, meeting the combined threshold requirement
- C. No, because both net worth and working capital must each independently exceed \$300,000, and the net worth of \$290,000 falls short
- D. No, because unlimited status requires a minimum net worth of \$500,000 regardless of working capital

30. A contractor operating as a general partnership has two partners and 3 employees. One partner wants to exempt both partners from workers' compensation coverage. The partner's accountant says general partnerships are completely exempt from workers' compensation in Tennessee. Is the accountant correct?

- A. No — workers' compensation is required for the 3 employees because Tennessee mandates coverage for all employers with one or more employees, but the partners can individually exempt themselves by registering with the Secretary of State

- B. Yes, because general partnerships with fewer than 5 total workers are exempt from workers' compensation
- C. No, because Tennessee does not allow any owner or partner exemptions from workers' compensation
- D. Yes, because general partnerships are not classified as employers under Tennessee workers' compensation law

31. A roofing subcontractor wants to bid on a \$62,000 re-roofing project for a commercial building. The subcontractor does not hold a Tennessee contractor license and believes licensing is not required because the project is under \$75,000. Is the subcontractor correct?

- A. No, because Tennessee has required all roofing subcontractors to be licensed since January 1, 2014, regardless of project value
- B. Yes, because roofing subcontractor licensing is required only for projects exceeding \$75,000
- C. No, but only because the project exceeds \$25,000 — roofing work under \$25,000 would be license-exempt
- D. Yes, because the general contractor's license covers all roofing subcontractor work on commercial projects

32. A contractor's employee suffers a severe eye injury from a grinding accident on a commercial construction site at 2:15 PM on Wednesday. The project foreman notifies the contractor's safety office at 2:45 PM. By what time must the employer report this loss-of-eye incident to OSHA?

- A. By 10:45 PM on Wednesday, which is within 8 hours of the employer learning about the eye loss
- B. By 2:15 PM on Thursday, which is within 24 hours of the actual time the injury occurred on the jobsite
- C. By 2:45 PM the following Wednesday, which is within 5 working days of the employer learning of the incident
- D. By 2:45 PM on Thursday, which is within 24 hours of the employer learning about the eye loss

33. A contractor wants to apply for a BC-A/r restricted residential license classification. The contractor's business partner says this classification allows projects up to \$125,000, requires passing a trade exam, and permits the use of subcontractors. How many of the partner's three statements are correct?

- A. All three statements are correct because BC-A/r is a standard residential classification
- B. One is correct — the \$125,000 limit, but no trade exam is required and subcontractors are not permitted

- C. Two are correct — the \$125,000 limit is accurate and subcontractors are permitted, but no trade exam is required because a community college course substitutes
- D. None are correct because the BC-A/r classification has a \$100,000 limit and different operational restrictions

34. A contractor enters into a \$450,000 lump-sum contract for a commercial tenant improvement. The contract documents include an agreement, supplementary conditions, general conditions, specifications, drawings, and pre-bid addenda. The specifications require 5/8-inch fire-rated drywall throughout. The pre-bid addenda changed the requirement to 1/2-inch standard drywall in the storage area. The drawings show 3/4-inch drywall in all areas. Which drywall type should be installed in the storage area?

- A. 5/8-inch fire-rated drywall because the specifications take precedence over all other documents
- B. 3/4-inch drywall because the drawings provide the most detailed room-by-room material assignments
- C. The contractor may choose the least expensive option and document the selection in the submittal log
- D. 1/2-inch standard drywall because addenda modify previously issued documents and represent the most current intent

35. A contractor operating as an S-corporation has net earnings of \$180,000, tangible property valued at \$230,000, and a net worth of \$270,000 in Tennessee. The company's CFO says S-corporations are exempt from franchise and excise tax. Is the CFO correct?

- A. No, because S-corporations are subject to both franchise and excise tax in Tennessee despite their federal pass-through classification
- B. Yes, because S-corporations receive identical treatment to sole proprietorships for all Tennessee taxes
- C. No, but only excise tax applies — S-corporations are exempt from franchise tax in Tennessee
- D. Yes, because all pass-through entities are exempt from franchise and excise tax under Tennessee law

36. A contractor has total assets of \$780,000, total liabilities of \$490,000, current assets of \$305,000, and current liabilities of \$168,000. The contractor wants to bid on a \$1,500,000 project. Can the contractor's monetary limit support this bid?

- A. Yes, because the net worth of \$290,000 supports a limit of \$2,900,000, which exceeds the project value

- B. Yes, because total assets of \$780,000 support any project under \$2,000,000 under the Board's guidelines
- C. No, because the monetary limit is ten times the lesser of net worth (\$290,000) or working capital (\$137,000) — the limit is \$1,370,000, which is below \$1,500,000
- D. No, because the Board requires a minimum net worth of \$200,000 per \$1,000,000 of contract value

37. A property owner signs an unconditional lien waiver and delivers it to the general contractor in exchange for a \$45,000 progress payment. Three weeks later, the contractor informs the owner that the payment will be delayed by 60 days. What is the status of the unconditional waiver?

- A. The unconditional waiver automatically converts to a conditional waiver after 15 days without payment
- B. The unconditional waiver is effective immediately upon signing — the owner has released lien protection regardless of whether payment has been received or when it arrives
- C. The unconditional waiver is void because the contractor failed to make timely payment
- D. The unconditional waiver is suspended until payment is received, then becomes retroactively effective

38. A contractor is preparing a bid with the following costs: labor \$240,000, materials \$165,000, equipment rental \$35,000. Overhead is 12% of all direct costs. The contractor wants an 8% profit margin. What is the total bid price?

- A. \$440,000 because overhead and profit are invoiced separately from direct costs in the pay application
- B. \$492,800 because profit is applied to direct costs only, excluding overhead from the profit calculation
- C. \$440,000 plus 12% overhead equals \$492,800, with 8% profit applied only to the labor component
- D. \$532,224, calculated as direct costs (\$440,000) plus overhead at 12% (\$52,800) plus profit at 8% of the combined total (\$39,424)

39. An employer with 25 employees in Tennessee wants to implement a Drug-Free Workplace Program for the 5% workers' compensation premium credit. The program includes pre-employment testing, reasonable suspicion testing, and post-accident testing. Does this program meet the requirements?

- A. Yes, because three of the four testing components satisfy the minimum requirement for premium credit

- B. No, because the program must include all four components: pre-employment, reasonable suspicion, post-accident, and random drug testing
- C. Yes, because random testing is an optional enhancement that increases the credit to 7.5% but is not mandatory
- D. No, because the program must also include annual testing of all current employees in addition to the three listed

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

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

41. A contractor is building a medical office using the percentage-of-completion method. The contract price is \$1,400,000, costs incurred to date are \$630,000, and total estimated costs are \$1,050,000. What revenue should the contractor recognize?

- A. \$840,000, calculated as costs to date (\$630,000) divided by total estimated costs (\$1,050,000) multiplied by the contract price (\$1,400,000)
- B. \$630,000, matching revenue directly to costs incurred without applying any completion ratio
- C. \$700,000, calculated as 50% of the contract price because the project is approximately halfway complete
- D. \$1,400,000, because revenue is fully recognized once the project passes 40% completion

42. A contractor is reviewing the three parties involved in a surety bond arrangement for a municipal water treatment plant project. The contractor wants to confirm the roles. Which statement correctly identifies the three parties and their roles?

- A. The owner is the principal, the contractor is the obligee, and the bonding company is the surety
- B. The contractor is the obligee, the owner is the principal, and the insurance company is the surety
- C. The contractor is the principal, the owner is the obligee, and the bonding company is the surety

D. The bonding company is the principal, the contractor is the obligee, and the owner is the surety

43. A contractor holds a Tennessee license with a monetary limit of \$2,400,000. The contractor currently carries \$500,000 in general liability insurance. A project owner asks the contractor to verify GL compliance. Does the contractor meet the minimum requirement?

A. Yes, because \$500,000 meets the requirement for the \$501,000–\$1,500,000 monetary limit tier

B. Yes, because GL insurance requirements are based on individual project values, not the monetary limit

C. No, because the \$2,400,000 monetary limit exceeds \$1,501,000, placing the contractor in the highest tier that requires \$1,000,000 minimum GL coverage

D. No, because all contractors with monetary limits above \$2,000,000 must carry GL equal to the full limit

44. A contractor enters into a time-and-materials contract for emergency fire damage repair on a warehouse. The building owner is concerned about cost control. The contractor explains the risk allocation of this contract type. Which statement is most accurate?

A. The contractor bears the highest cost risk because T&M rates are fixed and any cost increases reduce the profit

B. The owner bears the highest cost risk because T&M contracts have no cost ceiling and the contractor is reimbursed for actual time and materials without a cap on total expenditure

C. Risk is equally shared because the owner controls the scope while the contractor controls the pricing

D. The contractor bears the cost risk because T&M contracts include an implied guaranteed maximum price

45. A contractor wants to hire an electrical subcontractor for a \$29,000 scope of work on a commercial building project. The general contractor holds a valid BC-B license. Does the electrical subcontractor need a separate license?

A. No, because the general contractor's BC-B license covers all subcontractor trades on the project

B. No, because electrical subcontractor licensing is required only for scopes exceeding \$50,000

C. Yes, because the BC classification excludes electrical work exceeding \$25,000, and the \$29,000 scope exceeds that threshold

D. Yes, because all electrical work on commercial projects requires separate licensing regardless of value

46. A contractor is reviewing bid documents for a state highway bridge project. The documents require a bid bond at 5% of the bid amount, which totals \$3,800,000. The contractor's project manager asks what happens if the contractor wins the bid but then decides not to sign the contract. What is the consequence?

- A. The contractor forfeits only the bid bond premium paid to the surety, with no further financial obligation
- B. The surety pays the state up to the bid bond amount of \$190,000, and the contractor must reimburse the surety because a bond is not insurance
- C. The state must rebid the entire project and cannot pursue the winning bidder for any damages
- D. The contractor faces automatic license suspension for refusing to execute a public works contract

47. A construction worker falls from an unguarded floor opening on a commercial construction site and is killed instantly at 9:00 AM on Tuesday. The project superintendent calls the contractor's main office at 9:20 AM. By what time must the employer report this fatality to OSHA?

- A. By 9:20 AM on Wednesday, which is within 24 hours of the employer learning about the fatality
- B. By 5:20 PM on Tuesday, which is within 8 hours of the employer learning about the fatality
- C. By 9:00 AM on Wednesday, which is within 24 hours of the actual time the fatality occurred
- D. By 9:20 AM the following Tuesday, which is within 5 working days of the employer's knowledge

48. A contractor completes all work on a private residential addition on October 7. The homeowner has withheld \$28,000 in final payment. The contractor files a mechanic's lien on January 2, which is 87 days after the last day of furnishing. Is the filing timely, and what is the enforcement deadline?

- A. Yes, the filing is timely because it falls within 90 days of the last day of furnishing, and the enforcement lawsuit must be filed within one year of the lien filing date
- B. No, because residential mechanic's liens must be filed within 60 days of the last day of furnishing
- C. Yes, but the enforcement lawsuit must be filed within 90 days of the lien filing date
- D. No, because the 90-day period runs from the date the final payment was due, not the last day of furnishing

49. A contractor operating as a general partnership has gross receipts of \$850,000 and net earnings of \$105,000. The contractor's CPA says the partnership owes Tennessee franchise tax, excise tax, and business tax. Is the CPA correct?

- A. No, because general partnerships are exempt from franchise and excise tax — only business tax on gross receipts applies
- B. Yes, because all business entities with gross receipts exceeding \$500,000 owe all three taxes
- C. No, because general partnerships are exempt from all Tennessee state-level business taxes
- D. Yes, because general partnerships owe excise tax on net earnings and franchise tax on tangible property

50. A contractor wants to determine whether the company qualifies for an unlimited Tennessee license classification. The contractor's most recent financial statement shows a net worth of \$305,000 and working capital of \$298,000. Does the contractor qualify?

- A. Yes, because the net worth exceeds \$300,000 and that is the only requirement for unlimited status
- B. No, because both net worth and working capital must each independently exceed \$300,000, and the working capital of \$298,000 falls short of the threshold
- C. Yes, because the average of the two values exceeds \$300,000, meeting the combined threshold
- D. No, because unlimited status requires a minimum net worth of \$500,000 regardless of working capital

Practice Exam 19: Answer Key and Explanations

1. A. Unlimited license — Net worth = $\$1,100,000 - \$720,000 = \$380,000$. Working capital = $\$430,000 - \$92,000 = \$338,000$. Both values exceed \$300,000. The contractor qualifies for unlimited status.

2. B. Change order procedure — A properly executed change order must be written, signed by both the owner and contractor, and approved before the additional work begins. This change order meets all three requirements.

3. D. Limited partnership taxes — Limited partnerships owe 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, limited partnerships are not exempt.

4. B. GL insurance tiers — The \$550,000 monetary limit exceeds \$500,000, placing the contractor in the \$501,000–\$1,500,000 tier requiring \$500,000 minimum GL. The \$100,000 policy is insufficient.

5. D. Cost-plus-percentage conflict — The 13% fee on \$35,000 in additional cost generates \$4,550 in additional fee income. This structural incentive to recommend more expensive options is the inherent conflict of interest in cost-plus-percentage contracts.

6. A. Discrimination remedy — Title VII requires 15+ employees and the THRA requires 8+ employees, so neither covers this 7-employee company. However, 42 U.S.C. § 1981 prohibits racial discrimination in contracts regardless of employer size, providing a federal remedy.

7. B. Remote claimant — A subcontractor without a direct contract with the property owner is a remote claimant. The subcontractor must send a Notice of Nonpayment within 90 days of the last furnishing date and file a mechanic's lien within 90 days of the last furnishing.

8. C. Corporate taxes — Franchise tax = \$0.25 per \$100 of the greater of net worth (\$560,000) or tangible property (\$490,000). Using \$560,000: $\$560,000 \div 100 \times \$0.25 = \$1,400$. Excise tax = $6.5\% \times \$410,000 = \$26,650$. Combined = \$28,050.

9. C. Lien enforcement — The enforcement lawsuit must be filed within one year of the lien filing date. Filed August 20, 2025, the deadline is August 20, 2026. Mediation does not toll or extend this statutory period.

10. D. Licensing threshold — Total = $\$9,800 + \$10,200 + \$1,400 + \$2,100 + \$1,800 = \$25,300$. This exceeds the \$25,000 threshold. All components are included in the total.

11. A. QA departure — The departure must be reported within 10 days (by December 25) and a replacement designated within 90 days (by March 15). The operations manager's 90-day reporting timeline is incorrect; only the replacement period is 90 days.

12. D. Sales tax — The contractor is the end user and must pay combined sales tax at purchase. $\$56,000 \times 9.5\% = \$5,320$. The hospital's exemption does not transfer.

13. C. Excavation protection — OSHA requires protective systems at 5 feet or deeper unless in stable rock. Type A soil is not stable rock. The 5'6" trench requires protection.

14. D. Lump-sum risk — Without a differing site conditions clause, the contractor bears unforeseen condition costs. The contractor must absorb the \$55,000 abatement cost.

15. B. FMLA eligibility — FMLA requires 12 months of employment. This worker has only 8 months, failing that requirement regardless of the employer size or qualifying event.

16. B. Financial statements — Limits exceeding \$3,000,000 require an audited financial statement. A reviewed statement is sufficient only at or below \$3,000,000.

17. A. SC reciprocity and NASCLA — South Carolina is a reciprocity state (trade exam waiver). NASCLA is accepted for BC-B. The Business and Law exam is always required.

18. A. Sole proprietorship taxes — Sole proprietorships are exempt from franchise and excise tax. They remain subject to business tax on gross receipts.

19. C. Unit-price quantity risk — The owner bears quantity risk. When quantities decrease, the owner pays only for the amount installed: $640 \times \$72 = \$46,080$.

20. A. Monetary limit — Net worth = \$335,000. Working capital = $\$385,000 - \$218,000 = \$167,000$. Limit = $10 \times$ lesser (\$167,000) = \$1,670,000. The \$1,800,000 request exceeds this.

21. D. Cost-plus-fixed-fee — The fixed fee stays at \$48,000 regardless of actual costs. Whether costs rise or fall, the fee is constant. The owner benefits from the cost savings.

22. C. Order of precedence — Specifications take precedence over general conditions. The hierarchy: agreement → supplementary conditions → general conditions → specifications → drawings → addenda. Triple-pane glass in the specifications controls.

23. D. Repeat violation — Prior citations for substantially similar hazards result in a repeat classification. Repeat violations carry enhanced penalties. Willful requires intentional disregard, a higher standard.

24. B. GMP shared savings — The \$60,000 savings ($\$1,500,000 - \$1,440,000$) is split 50/50: \$30,000 to each party.

25. C. Franchise tax — Tax = \$0.25 per \$100 of the greater of net worth (\$440,000) or tangible property (\$510,000). Using \$510,000: $\$510,000 \div 100 \times \$0.25 = \$1,275$.

26. B. LMC threshold — The LMC license is required at \$100,000 or more. At \$108,000, the threshold is exceeded.

27. D. Termination for convenience — Contractor receives costs plus earned profit. No anticipated profit on unperformed work. Total = $\$643,500 + \$71,500 = \$715,000$.

28. D. Scaffold design — OSHA requires a qualified person to design scaffolds. A qualified person has specific knowledge, training, and experience in scaffold design. General construction experience alone is insufficient.

29. C. Unlimited license — Both values must each exceed \$300,000. Net worth (\$290,000) falls short. The contractor does not qualify.

30. A. Workers' compensation — Coverage is required for all employers with 1+ employees. The 3 employees must be covered. Partners can individually exempt themselves through Secretary of State registration.

31. A. Roofing licensing — All roofing subcontractors must be licensed since January 1, 2014, regardless of value.

32. D. OSHA reporting — Eye loss must be reported within 24 hours of the employer learning. The office learned at 2:45 PM Wednesday, so the deadline is 2:45 PM Thursday.

33. C. BC-A/r — Two claims are correct: \$125,000 limit and subcontractors are permitted. No trade exam is required (community college course substitutes). Joint ventures are prohibited.

34. D. Addenda — Addenda modify previously issued documents and represent the most current intent. The 1/2-inch standard drywall in the addenda controls.

35. A. S-corporation taxes — S-corporations owe both franchise and excise tax in Tennessee despite federal pass-through status.

36. C. Monetary limit — Net worth = \$290,000. Working capital = \$305,000 - \$168,000 = \$137,000. Limit = $10 \times \$137,000 = \$1,370,000$. Below \$1,500,000.

37. B. Unconditional waiver — An unconditional waiver is effective immediately upon signing, regardless of payment. The owner has released lien protection even though payment has not been received.

38. D. Bid calculation — Direct costs = \$240,000 + \$165,000 + \$35,000 = \$440,000. Overhead = $12\% \times \$440,000 = \$52,800$. Subtotal = \$492,800. Profit = $8\% \times \$492,800 = \$39,424$. Total = \$532,224.

39. B. Drug-Free Workplace — All four components are required: pre-employment, reasonable suspicion, post-accident, and random testing. Three of four is insufficient.

40. A. Alabama reciprocity — Alabama is a reciprocity state. Trade exam may be waived. Business and Law exam is always required.

41. A. Percentage of completion — Revenue = $(\$630,000 \div \$1,050,000) \times \$1,400,000 = 0.60 \times \$1,400,000 = \$840,000$.

42. C. Bond parties — Principal = contractor (the party bonded), obligee = owner (the party protected), surety = bonding company (the guarantor).

43. C. GL tiers — \$2,400,000 exceeds \$1,501,000, requiring \$1,000,000 minimum GL. The \$500,000 policy is insufficient.

44. B. T&M risk — T&M contracts have no cost ceiling, placing highest cost risk on the owner. The contractor is reimbursed for actual time and materials without a cap.

45. C. Electrical licensing — BC excludes electrical work exceeding \$25,000. At \$29,000, the electrical subcontractor must hold a separate license.

46. B. Bid bond — The surety pays the obligee up to the bond amount (\$190,000). The contractor must reimburse the surety because a bond is not insurance.

47. B. Fatality reporting — Fatalities must be reported within 8 hours of the employer learning. The office learned at 9:20 AM, deadline is 5:20 PM Tuesday.

48. A. Lien timing — Filed 87 days after last furnishing, within 90 days. Timely. Enforcement lawsuit due within one year of filing.

49. A. General partnership taxes — General partnerships are exempt from franchise and excise tax. Only business tax on gross receipts applies.

50. B. Unlimited license — Both values must each exceed \$300,000. Working capital (\$298,000) falls \$2,000 short. The contractor does not qualify.

