

# PRACTICE EXAM 20: TENNESSEE BUSINESS AND LAW SIMULATION (50 QUESTIONS)

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

1. A contractor has total assets of \$1,350,000, total liabilities of \$910,000, current assets of \$520,000, and current liabilities of \$185,000. The contractor wants to know the monetary limit and whether unlimited status is achievable. What is the correct analysis?

- A. The limit is \$4,400,000 based on net worth and the contractor qualifies for unlimited because net worth exceeds \$300,000
- B. The limit is \$3,350,000 based on ten times the working capital of \$335,000, and the contractor qualifies for unlimited because both net worth (\$440,000) and working capital (\$335,000) exceed \$300,000
- C. The limit is \$4,400,000 and the contractor does not qualify for unlimited because working capital must exceed \$400,000
- D. The limit is \$3,350,000 but the contractor does not qualify because unlimited requires both values above \$500,000

2. A Tennessee contractor operating as an LLC has gross receipts of \$3,100,000, net earnings of \$290,000, a net worth of \$410,000, and tangible property valued at \$375,000 in Tennessee. What is the company's Tennessee excise tax liability?

- A. \$1,025, calculated at \$0.25 per \$100 of the net worth of \$410,000
- B. \$937.50, calculated at \$0.25 per \$100 of tangible property of \$375,000
- C. \$0, because LLCs with fewer than 10 members are exempt from excise tax in Tennessee
- D. \$18,850, calculated at 6.5% of the net earnings of \$290,000

3. A general contractor on a private commercial project receives a conditional lien waiver from a concrete subcontractor in exchange for a \$52,000 progress payment. The contractor issues a company check. Five days later, the bank returns the check due to insufficient funds. What is the status of the conditional waiver?

- A. The conditional waiver is effective because the contractor issued the check, demonstrating intent to pay

- B. The conditional waiver is not effective because the condition — actual receipt of payment — was never satisfied when the check bounced
- C. The conditional waiver becomes effective 10 business days after the check was issued regardless of payment
- D. The conditional waiver converts to an unconditional waiver once the contractor reissues a replacement check

4. A contractor enters into a cost-plus-percentage contract with a 15% fee for a commercial office renovation estimated at \$420,000. During construction, the contractor discovers that a less expensive mechanical system would save the owner \$30,000 while meeting all code requirements. What financial disincentive does this contract type create?

- A. The contractor has a financial disincentive to recommend the savings because a \$30,000 cost reduction eliminates \$4,500 in fee income under the percentage structure
- B. No disincentive exists because the percentage fee remains the same regardless of cost changes
- C. The contractor is contractually required to recommend the cheaper option under the implied duty of good faith
- D. The disincentive is eliminated because the owner must independently verify all material selections

5. A subcontractor furnishes labor and materials to a state-funded community college construction project. The general contractor has not paid the subcontractor for \$87,000 in completed work. The subcontractor wants to file a mechanic's lien against the college property. Is this a viable legal strategy?

- A. Yes, because educational construction projects are treated as private contracts for lien purposes in Tennessee
- B. Yes, but only if the subcontractor files the lien within 30 days of the last day of furnishing labor or materials
- C. No, and no alternative remedy exists because state educational institutions have sovereign immunity
- D. No, because mechanic's liens cannot be filed against public property — the subcontractor must pursue a claim against the payment bond

6. A contractor has been cited by OSHA for a serious fall protection violation. The citation is the contractor's second citation for the identical guardrail deficiency in the past 15 months. How will OSHA most likely classify this new violation?

- A. As another serious violation with the same penalty amount because each citation is evaluated independently
- B. As a willful violation because two citations within 15 months demonstrate intentional disregard for safety
- C. As an other-than-serious violation because the repeated nature reduces the severity classification
- D. As a repeat violation because the contractor has a prior citation for a substantially similar hazard

7. A Tennessee contractor wants to hire a plumbing subcontractor for a \$26,500 scope of work on a new residential home. The general contractor holds a valid BC-B license. Does the plumbing subcontractor need a separate Tennessee license?

- A. No, because the general contractor's BC-B license covers all subcontractor trades on residential projects
- B. No, because plumbing subcontractor licensing is required only when the scope exceeds \$50,000
- C. Yes, because the BC classification excludes plumbing work exceeding \$25,000 and the \$26,500 scope exceeds that threshold
- D. Yes, because all plumbing work on residential projects requires a separate license regardless of value

8. A contractor wants to obtain a Tennessee license with a monetary limit of \$3,600,000. The contractor's CPA has prepared a reviewed financial statement. Does this meet the Board's requirements for this limit level?

- A. Yes, because reviewed statements are acceptable for all monetary limits up to \$5,000,000
- B. Yes, because the Board requires audited statements only when the limit exceeds \$4,000,000
- C. No, because monetary limits exceeding \$3,000,000 require an audited financial statement
- D. No, because all monetary limits above \$2,500,000 require an audited financial statement

9. A construction worker on a commercial project suffers a crushed hand requiring amputation of two fingers. The injury occurs at 7:30 AM on Thursday. The site superintendent notifies the contractor's safety office at 8:15 AM the same day. By what time must the employer report this amputation to OSHA?

- A. By 4:15 PM on Thursday, which is within 8 hours of the employer learning about the amputation
- B. By 8:15 AM on Friday, which is within 24 hours of the employer learning about the amputation

C. By 7:30 AM on Friday, which is within 24 hours of the actual time the amputation occurred  
D. By 8:15 AM the following Thursday, which is within 5 working days of the employer's knowledge

10. A contractor files a mechanic's lien on a private residential property on September 12, 2025. The contractor and homeowner attempt to negotiate a settlement. Negotiations break down in June 2026. The contractor's attorney files an enforcement lawsuit on September 10, 2026. Is the lawsuit timely?

- A. No, because enforcement lawsuits must be filed within 6 months of the lien filing date
- B. No, because the enforcement deadline is 90 days from the date the lien was recorded
- C. Yes, because the settlement negotiations tolled the one-year deadline by the duration of the talks
- D. Yes, because the lawsuit was filed within one year of the lien filing date — September 10, 2026 is before the September 12, 2026 deadline

11. A contractor operating as a general partnership has two partners and 5 employees. The partnership has gross receipts of \$950,000 and net earnings of \$125,000. The contractor's tax advisor says the partnership owes Tennessee excise tax at 6.5% on the net earnings. Is the advisor correct?

- A. No, because general partnerships are exempt from both franchise and excise tax — only business tax on gross receipts applies
- B. Yes, because all business entities with gross receipts exceeding \$500,000 owe excise tax in Tennessee
- C. No, because general partnerships owe excise tax only when net earnings exceed \$200,000
- D. Yes, because all partnerships with employees owe excise tax regardless of organizational structure

12. A contractor operating as a sole proprietorship earns \$155,000 in net self-employment income. The contractor wants to calculate the approximate self-employment tax liability and the quarterly payment schedule. What is the correct calculation?

- A. Approximately \$11,625 at 7.5%, payable in two semi-annual installments on April 15 and October 15
- B. Approximately \$4,495 at 2.9% for Medicare only, payable in a single annual installment on April 15
- C. Approximately \$19,220 at 12.4% for Social Security only, payable in quarterly installments
- D. Approximately \$23,715 at 15.3%, with estimated payments due April 15, June 15, September 15, and January 15

13. A contractor enters into a \$1,050,000 stipulated-sum contract for a commercial warehouse. The project is 40% complete. Costs incurred to date are \$336,000. Total estimated costs are \$840,000. Using the percentage-of-completion method, what revenue should the contractor recognize?

- A. \$420,000, calculated as costs to date (\$336,000) divided by total estimated costs (\$840,000) multiplied by the contract price (\$1,050,000)
- B. \$336,000, matching revenue directly to costs incurred without applying a completion ratio
- C. \$525,000, calculated as 50% of the contract price because the project is approximately halfway complete
- D. \$1,050,000, because revenue is fully recognized once the project surpasses 30% completion

14. A contractor enters into a time-and-materials contract for emergency water damage restoration on a commercial building. After three weeks, costs reach \$210,000 with additional work still needed. The building owner demands a guaranteed maximum price. What fundamental problem does this contract type present?

- A. The contractor bears all cost risk because T&M rates are locked at contract execution
- B. T&M contracts include an implied GMP equal to 125% of the initial verbal estimate
- C. Risk is equally shared because both parties approved the original hourly rates
- D. T&M contracts have no cost ceiling, placing the highest cost risk on the owner — adding a GMP would require a written contract modification agreed to by both parties

15. A contractor holds a Tennessee license with a monetary limit of \$1,900,000. The contractor carries \$500,000 in general liability insurance. Does the contractor meet Tennessee's minimum GL requirement?

- A. Yes, because \$500,000 meets the \$501,000–\$1,500,000 tier requirement and the limit falls within that range
- B. Yes, because GL requirements are based on individual project values rather than the contractor's monetary limit
- C. No, because all contractors with limits above \$1,000,000 must carry GL equal to 75% of the monetary limit
- D. No, because the \$1,900,000 monetary limit exceeds \$1,501,000, placing the contractor in the highest tier that requires \$1,000,000 minimum GL coverage

16. A property owner and general contractor execute a \$2,800,000 commercial construction contract. The contract documents include an agreement, supplementary conditions, general conditions, specifications, drawings, and pre-bid addenda. The agreement specifies completion

in 14 months. The supplementary conditions specify 16 months. The general conditions specify 18 months. Which completion timeline controls?

- A. 14 months, because the agreement holds the highest position in the standard order of precedence
- B. 18 months, because the general conditions provide the most conservative and protective timeline
- C. 16 months, because the supplementary conditions represent the most recently negotiated terms
- D. The contractor may select whichever timeline is most favorable and document the choice

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

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

18. An employer with 12 employees in Tennessee terminates a 50-year-old worker and replaces the position with a 30-year-old hire. The terminated worker believes the decision was age-based. Under which law can the worker file a complaint?

- A. The federal ADEA, which applies to employers with 10 or more employees in the construction industry
- B. Title VII of the Civil Rights Act, which covers age-based discrimination for employers with 12+ employees
- C. The Tennessee Human Rights Act, which applies to employers with 8 or more employees and covers age discrimination
- D. No federal or state discrimination law covers age claims for employers with only 12 employees

19. A contractor wants to apply for a BC-A/r restricted residential license classification. Which combination of restrictions accurately describes this classification?

- A. Projects up to \$150,000, trade exam required, joint ventures permitted, subcontractors prohibited
- B. Projects up to \$100,000, no trade exam required, joint ventures prohibited, subcontractors permitted

- C. Projects up to \$125,000, no trade exam required (community college course substitutes), joint ventures prohibited, subcontractors permitted
- D. Projects up to \$125,000, trade exam required, joint ventures permitted, subcontractors prohibited

20. A contractor purchases \$38,000 in electrical materials for a commercial tenant improvement project. The combined state and local sales tax rate is 9.5%. The project owner is a federal government agency with tax-exempt status. Can the contractor avoid paying sales tax?

- A. Yes, because materials for federal government projects are exempt from state sales tax
- B. No, because the contractor is the end user of construction materials in Tennessee and must pay the combined 9.5% sales tax of \$3,610 at purchase regardless of the owner's exempt status
- C. Yes, if the contractor provides the supplier with a copy of the federal tax exemption certificate
- D. No, but the contractor can apply for a quarterly sales tax refund from the Tennessee Department of Revenue

21. A contractor enters into a \$680,000 lump-sum contract for a dental clinic build-out. During construction, the owner verbally approves a \$22,000 upgrade to the radiology room shielding. The contractor completes the upgrade immediately. Three weeks later, the owner disputes the \$22,000 charge. What is the core procedural issue?

- A. The change order is automatically void because verbal approvals are prohibited under Tennessee law
- B. The architect must approve all change orders before the owner or contractor can authorize them
- C. The change order should have been in writing and signed by both parties before the work began — the lack of documentation weakens the contractor's ability to recover the \$22,000
- D. The owner cannot dispute the charge because the upgrade was physically completed and accepted

22. A contractor operating as an S-corporation has net earnings of \$230,000, a net worth of \$310,000, and tangible property valued at \$280,000 in Tennessee. The company's office manager says S-corporations are pass-through entities exempt from Tennessee franchise and excise tax. Is the office manager 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 the same tax treatment as sole proprietorships in Tennessee

- 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

23. A contractor is excavating a utility trench that reaches 5 feet 2 inches deep in soil classified as Type B. The excavation foreman says the trench is "barely over 5 feet" and that a competent person inspection is sufficient without installing a protective system. Is the foreman correct?

- A. Yes, because a competent person can waive protection for trenches between 5 and 6 feet based on field conditions
- B. Yes, because Type B soil has sufficient cohesion at shallow depths to prevent cave-ins without physical protection
- C. No, because OSHA requires a protective system in all excavations 5 feet or deeper regardless of soil type unless entirely in stable rock — there is no exception for trenches barely over the threshold
- D. No, because Type B soil requires protection at depths exceeding 4 feet under enhanced OSHA construction standards

24. A contractor is building a retail center under a guaranteed maximum price (GMP) contract set at \$2,000,000. The contract includes a 60/40 shared savings clause with 60% to the owner. Actual costs total \$1,880,000. How are the savings distributed?

- A. The contractor receives the entire \$120,000 as a performance incentive for efficient project management
- B. The owner receives \$72,000 (60%) and the contractor receives \$48,000 (40%) of the \$120,000 savings
- C. The owner receives the full \$120,000 because the GMP ceiling exists solely for the owner's cost protection
- D. The savings are held in a joint escrow account until all warranty obligations expire

25. A material supplier delivers \$72,000 in custom cabinetry to a private residential project. The supplier's contract is exclusively with the general contractor — no contract exists with the homeowner. The general contractor fails to pay. What must the supplier do to preserve mechanic's lien rights?

- A. File a mechanic's lien directly with the county register of deeds within 90 days — no prior notice is required
- B. Send a demand letter to the general contractor by certified mail within 30 days of the final invoice
- C. File a breach of contract lawsuit against the general contractor, which automatically creates a lien

D. Send a Notice of Nonpayment to the prime contractor or owner within 90 days of the last delivery, and file a mechanic's lien within 90 days of the last furnishing date

26. A contractor operating as a C-corporation has a net worth of \$350,000 and tangible property in Tennessee valued at \$420,000. What is the corporation's Tennessee franchise tax liability?

A. \$875, 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 position

C. \$1,050, calculated at \$0.25 per \$100 of tangible property of \$420,000 because it is the greater value

D. \$1,925, calculated at \$0.25 per \$100 of the combined net worth and tangible property

27. A contractor enters into a cost-plus-fixed-fee contract with a \$72,000 fixed fee for an estimated \$900,000 commercial renovation. During construction, the owner requests design upgrades that increase actual costs to \$1,050,000. What fee does the contractor receive?

A. \$84,000, adjusted proportionally because actual costs exceeded the original estimate by approximately 17%

B. \$72,000, because a fixed fee remains constant regardless of whether actual costs increase or decrease

C. \$72,000 plus a separate change order fee calculated at 8% of the \$150,000 cost increase

D. \$105,000, recalculated as 10% of actual costs because the fee converts when costs exceed the estimate by 15%

28. A contractor's qualifying agent resigns effective January 20. The contractor has 6 active projects. By what date must the contractor report the departure, and by what date must a replacement be designated?

A. Report within 10 days by January 30 and designate a replacement within 90 days by April 20

B. Report within 30 days by February 19 and designate a replacement within 120 days by May 20

C. Report within 5 business days by January 27 and designate a replacement within 60 days by March 21

D. Report within 15 days by February 4 and designate a replacement within 180 days by July 19

29. A contractor wants to determine whether a garage conversion project requires a Tennessee contractor license. The project includes: framing materials \$8,400, insulation and drywall \$4,200, electrical materials \$3,100, labor \$7,800, and profit \$1,800. Does this project require a license?

- A. No, because garage conversions are classified as home improvements exempt from contractor licensing
- B. No, because the labor cost of \$7,800 is under \$25,000 and the threshold applies only to labor
- C. Yes, because the total project cost is \$25,300 (all materials + labor + profit), which exceeds the \$25,000 licensing threshold
- D. Yes, because any project involving electrical work automatically requires a contractor license

30. An employer with 55 employees at a single location in Nashville has a worker who has been employed for 15 months. The worker requests 12 weeks of unpaid FMLA leave to care for a spouse recovering from major surgery. Is the worker eligible?

- A. Yes, because the employer has 50+ employees within a 75-mile radius, the worker has been employed for more than 12 months, and care for a spouse with a serious health condition is a qualifying FMLA event
- B. No, because FMLA leave for spousal care is limited to 6 weeks rather than the standard 12 weeks
- C. No, because the employee must have worked for at least 24 months to qualify for FMLA leave
- D. Yes, but only if the spouse's surgery requires inpatient hospitalization for more than 72 hours

31. A contractor holds a Tennessee license with a monetary limit of \$680,000. The contractor currently carries \$250,000 in general liability insurance. Does the contractor meet the minimum GL requirement?

- A. Yes, because \$250,000 exceeds the \$100,000 minimum required for the up-to-\$500,000 monetary limit tier
- B. Yes, because GL requirements in Tennessee are based on individual project values, not the monetary limit
- C. No, because the \$680,000 monetary limit falls in the \$501,000–\$1,500,000 tier, which requires a minimum of \$500,000 in GL coverage
- D. No, because all Tennessee contractors must carry a minimum of \$1,000,000 in GL insurance

32. A contractor is reviewing the five essential elements of a valid construction contract. The contractor has a written offer, acceptance, consideration, and legal purpose. The property

owner who signed the contract was under court-appointed guardianship at the time of signing and the guardian did not approve the contract. What element is at issue?

- A. Legal capacity — a person under guardianship may lack the legal ability to enter into binding contracts without the guardian's approval
- B. Consideration — the contract lacks adequate consideration because the guardian did not contribute funds
- C. Offer — the offer is invalid because it was directed to a person under legal guardianship
- D. Legal purpose — construction contracts with protected persons are prohibited under Tennessee law

33. A contractor is building a commercial parking structure. A scaffold platform stands 11 feet above ground level. The scaffold was designed with a 3.5:1 safety factor. 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 construction
- B. Yes, because the 3.5:1 factor meets the OSHA requirement for scaffolds under 15 feet in height
- C. No, because scaffolds above 10 feet require a minimum 6:1 safety factor under OSHA regulations
- D. No, because OSHA requires a minimum 4:1 safety factor for all scaffolding regardless of height

34. A roofing subcontractor wants to perform a \$42,000 re-roofing project on a commercial building. The subcontractor does not hold a Tennessee contractor license. The general contractor says licensing is unnecessary because the project is under \$50,000. Is the general contractor correct?

- A. Yes, because roofing subcontractor licensing is required only for projects exceeding \$50,000
- B. No, because Tennessee has required all roofing subcontractors to be licensed since January 1, 2014, regardless of project value
- C. Yes, because the general contractor's license covers all roofing subcontractor work on the project
- D. No, but only because the project exceeds \$25,000 — roofing work under \$25,000 is license-exempt

35. A contractor has a net worth of \$280,000 and working capital of \$315,000. The contractor applies for an unlimited license classification. Does the contractor qualify?

- A. No, because both net worth and working capital must each independently exceed \$300,000, and the net worth of \$280,000 falls below the threshold
- B. Yes, because the working capital of \$315,000 exceeds \$300,000 and only one value must meet the threshold
- C. Yes, because the average of \$280,000 and \$315,000 exceeds \$300,000
- D. No, because unlimited status requires a minimum net worth of \$500,000 regardless of working capital

36. A contractor operating as a limited partnership has gross receipts of \$2,800,000, net earnings of \$360,000, a net worth of \$430,000, and tangible property valued at \$390,000 in Tennessee. What is the company's franchise tax liability?

- A. \$975, calculated at \$0.25 per \$100 of tangible property because franchise tax uses the lesser value
- B. \$1,075, calculated at \$0.25 per \$100 of net worth of \$430,000 because it is the greater of net worth or tangible property
- C. \$100, the minimum franchise tax for all Tennessee limited partnerships regardless of financial size
- D. \$0, because limited partnerships are exempt from franchise tax as pass-through entities

37. A contractor executes a \$850,000 stipulated-sum contract for a medical office fit-out. After completing 65% of the work, the owner terminates the contractor for convenience. The contractor has incurred \$497,250 in costs and earned \$55,250 in profit on the completed portion. The contractor claims \$52,500 in anticipated profit on the unperformed 35%. What is the contractor entitled to receive?

- A. \$850,000, the full contract price, because the owner terminated without any contractor default or breach
- B. \$605,000, consisting of costs plus earned profit plus the anticipated profit on unperformed work
- C. \$552,500, consisting of costs incurred (\$497,250) plus profit earned on the completed portion (\$55,250), with no recovery of anticipated profit on unperformed work
- D. \$497,250, consisting of only the direct costs with no profit on any portion of the completed work.

38. A contractor with 65 employees is hiring workers for a large commercial project. The contractor's HR director says only I-9 forms are required because E-Verify is a voluntary federal program. Is the HR director correct?

- A. Yes, because E-Verify is voluntary for all private-sector employers regardless of the number of employees

- B. No, because Tennessee requires E-Verify for employers with 50 or more employees — with 65 employees, both I-9 and E-Verify are required
- C. Yes, because E-Verify is mandatory only for employers holding federal government contracts
- D. No, because E-Verify is required for all Tennessee employers regardless of employee count

39. A contractor enters into a \$560,000 lump-sum contract to build a small veterinary clinic. During excavation, the contractor encounters a buried fuel tank that was not shown on the site survey. Removal and remediation will cost \$38,000. The contract contains no differing site conditions clause. Who bears the remediation cost?

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

40. A contractor's employee suffers a fatal fall from an unguarded roof edge on a commercial construction site at 1:00 PM on Monday. The project superintendent calls the contractor's home office at 1:30 PM. By what time must the employer report this fatality to OSHA?

- A. By 1:30 PM on Tuesday, which is within 24 hours of the employer learning about the fatality
- B. By 9:30 PM on Monday, which is within 8 hours of the employer learning about the fatality
- C. By 1:00 PM on Tuesday, which is within 24 hours of the actual time the fatality occurred
- D. By 1:30 PM the following Monday, which is within 5 working days of the employer's knowledge

41. A contractor wants to hire an HVAC subcontractor for a \$28,000 scope of work on a commercial office renovation. The general contractor holds a valid BC-B license. Does the HVAC subcontractor need a separate Tennessee license?

- A. No, because the general contractor's BC-B license covers all mechanical trades on the project
- B. Yes, because the BC classification excludes HVAC work exceeding \$25,000 and the \$28,000 scope exceeds that threshold
- C. No, because HVAC subcontractor licensing is required only for scopes exceeding \$50,000
- D. Yes, because all HVAC work on commercial buildings requires a separate license regardless of value

42. A contractor is reviewing bid documents for a county government building project. The documents require both a performance bond and a payment bond. The contractor's estimator asks about the standard bond amounts. What are the typical amounts for each bond?

- A. Performance bond at 50% and payment bond at 100% of the contract value
- B. Performance bond at 100% and payment bond at 50% of the contract value
- C. Both bonds at 50% of the contract value for a combined coverage of 100%
- D. Both bonds at 100% of the contract value — performance bond guarantees completion and payment bond guarantees payment to subcontractors and suppliers

43. A contractor operating as a sole proprietorship has gross receipts of \$540,000. The contractor's accountant says the business owes Tennessee business tax on gross receipts. The contractor pays \$380,000 to properly licensed subcontractors during the year. What is the deductible amount for business tax purposes?

- A. \$380,000, because payments to properly licensed subcontractors are deductible from gross receipts for business tax calculation
- B. \$0, because Tennessee does not allow any deductions from gross receipts for business tax purposes
- C. \$270,000, because the deduction is capped at 50% of total gross receipts
- D. \$540,000, because sole proprietorships are fully exempt from Tennessee business tax

44. An employer with 22 employees wants to implement Tennessee's Drug-Free Workplace Program to receive the 5% workers' compensation premium credit. Which testing components must the program include?

- A. Only pre-employment and post-accident testing are required for the premium credit
- B. Pre-employment, reasonable suspicion, and post-accident testing — random testing is an optional enhancement
- C. All four components are required: pre-employment, reasonable suspicion, post-accident, and random drug testing
- D. Only random and post-accident testing are required because pre-employment testing is prohibited

45. A contractor signs an unconditional lien waiver and delivers it to the project owner before receiving the corresponding \$38,000 progress payment. Two weeks later, the owner informs the contractor that the payment will be delayed indefinitely. What is the legal effect of the unconditional waiver?

- A. The unconditional waiver is void because the owner failed to make timely payment
- B. The unconditional waiver is effective immediately upon signing — the contractor has released lien rights regardless of whether or when payment is received
- C. The unconditional waiver automatically converts to a conditional waiver after 30 days without payment
- D. The waiver is suspended until payment is received, then becomes retroactively effective from the signing date

46. A contractor has total assets of \$620,000, total liabilities of \$370,000, current assets of \$240,000, and current liabilities of \$115,000. The contractor wants to bid on a \$1,300,000 project. Can the contractor's monetary limit support this bid?

- A. Yes, because the net worth of \$250,000 supports a limit of \$2,500,000 based on the standard calculation
- B. Yes, because total assets of \$620,000 are sufficient to support any project under \$1,500,000
- C. No, because the monetary limit is ten times the lesser of net worth (\$250,000) or working capital (\$125,000) — the limit is \$1,250,000, which is below \$1,300,000
- D. No, because the Board requires a minimum current ratio of 2.5 for projects exceeding \$1,000,000

47. A contractor is reviewing the contract documents for a \$5,500,000 commercial project. The specifications require stainless steel handrails throughout the building. The addenda issued before contract execution changed the requirement to powder-coated aluminum handrails in the service corridors. The drawings show painted carbon steel handrails in the service corridors. Which handrail type should be installed in the service corridors?

- A. Stainless steel, because the specifications take precedence over both addenda and drawings
- B. Painted carbon steel, because the drawings provide the most detailed location-specific information
- C. The contractor may choose the least expensive option and document the selection in the submittal log
- D. Powder-coated aluminum, because addenda modify all previously issued documents and represent the most current design intent

48. A contractor enters into a \$1,800,000 stipulated-sum contract for a commercial project. The contract requires a performance bond and a payment bond. The contractor's project manager asks about the fundamental difference between a surety bond and an insurance policy. What is the key distinction?

- A. A bond covers only property damage, while insurance covers both property damage and bodily injury

- B. A bond and insurance are functionally identical — both permanently transfer risk to the issuing company
- C. A bond is a three-party agreement where the contractor must reimburse the surety for any claims paid, unlike insurance where the insurer absorbs the loss permanently
- D. A bond requires the contractor to pay claims directly, with the surety acting only as a process guarantor

49. A masonry subcontractor is bidding on a \$97,000 scope of masonry work for a commercial warehouse. The subcontractor does not hold an LMC license. The subcontractor's estimator says no LMC is needed because the threshold is \$100,000. Is the estimator correct?

- A. Yes, because the LMC license is required only when masonry subcontractor work reaches \$100,000 or more, and \$97,000 falls below that threshold
- B. No, because all masonry subcontractors must hold an LMC license regardless of the contract amount
- C. Yes, because the LMC threshold is \$125,000 for commercial masonry projects in Tennessee
- D. No, because the LMC threshold is \$75,000 for commercial projects in Tennessee

50. A contractor completes all work on a private commercial building renovation on November 20. The project owner has withheld \$65,000 in retainage. The contractor files a mechanic's lien on February 15, which is 87 days after the last day of furnishing. Is the filing timely, and what is the enforcement deadline?

- A. No, because commercial mechanic's liens must be filed within 60 days of the last day of furnishing
- B. Yes, the filing is timely because it falls within the 90-day statutory period, and the enforcement lawsuit must be filed within one year of the lien filing date
- C. Yes, but the enforcement lawsuit must be filed within 90 days of the lien filing date
- D. No, because the 90-day period begins from the date the retainage was contractually due

## Answer Key and Explanations

1. B. Monetary limit and unlimited — Net worth =  $\$1,350,000 - \$910,000 = \$440,000$ . Working capital =  $\$520,000 - \$185,000 = \$335,000$ . Limit =  $10 \times$  lesser ( $\$335,000$ ) =  $\$3,350,000$ . Both values exceed  $\$300,000$ , so the contractor qualifies for unlimited status.

2. D. Excise tax — Tennessee excise tax is 6.5% of net earnings. For this LLC:  $\$290,000 \times 6.5\% = \$18,850$ . The question asks specifically about excise tax, not franchise tax. Options A and B describe franchise tax calculations.

3. B. Conditional waiver — A conditional waiver becomes effective only when payment is actually received. A bounced check means payment was never received. The condition was not satisfied, so the waiver is not effective and the subcontractor retains lien rights.

4. A. Cost-plus-percentage disincentive — Under a percentage fee structure, recommending \$30,000 in savings eliminates \$4,500 in fee income ( $15\% \times \$30,000$ ). This creates a financial disincentive to recommend cost-saving alternatives.

5. D. Public property liens — Mechanic's liens cannot be filed against public property, including state-funded colleges. The subcontractor's remedy is to file a claim against the payment bond.

6. D. Repeat violation — Prior citations for substantially similar hazards result in a repeat classification with enhanced penalties. Willful requires intentional disregard, a higher evidentiary standard than simply having a prior citation.

7. C. Plumbing licensing — The BC classification excludes plumbing work exceeding \$25,000. At \$26,500, the threshold is exceeded, and the plumbing subcontractor must hold a separate license.

8. C. Financial statements — Monetary limits exceeding \$3,000,000 require an audited financial statement. A reviewed statement is sufficient only for limits of \$3,000,000 or less.

9. B. OSHA reporting — Amputations must be reported within 24 hours of the employer learning about the incident. The safety office learned at 8:15 AM Thursday, so the deadline is 8:15 AM Friday. Only fatalities have the shorter 8-hour window.

10. D. Lien enforcement — The enforcement lawsuit must be filed within one year of the lien filing date. Filed September 12, 2025, the deadline is September 12, 2026. The lawsuit filed September 10, 2026, is within the deadline. Settlement negotiations do not toll or extend this period.

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

12. D. Self-employment tax —  $15.3\% \times \$155,000 = \$23,715$ , combining Social Security (12.4%) and Medicare (2.9%). Estimated payments due quarterly: April 15, June 15, September 15, and January 15.

13. A. Percentage of completion — Revenue =  $(\$336,000 \div \$840,000) \times \$1,050,000 = 0.40 \times \$1,050,000 = \$420,000$ . Revenue is recognized proportionally based on the ratio of costs incurred to total estimated costs.

14. D. T&M risk — T&M contracts have no cost ceiling, placing the highest cost risk on the owner. Adding a GMP or cost cap would require a written contract modification agreed to by both parties.

15. D. GL tiers — The \$1,900,000 limit exceeds \$1,501,000, placing the contractor in the highest tier requiring \$1,000,000 minimum GL. The \$500,000 policy is insufficient.

16. A. Order of precedence — The agreement holds the highest position: agreement → supplementary conditions → general conditions → specifications → drawings → addenda. The 14-month timeline in the agreement controls.

17. D. Mississippi reciprocity — Mississippi is a reciprocity state. The trade exam may be waived. The Business and Law exam is always required and is never waived.

18. C. Age discrimination — The ADEA requires 20+ employees, so it does not apply. The Tennessee Human Rights Act applies at 8+ employees and covers age discrimination, providing a state remedy.

19. C. BC-A/r restrictions — The correct combination: \$125,000 limit, no trade exam (community college course substitutes), joint ventures prohibited, subcontractors permitted.

20. B. Sales tax — The contractor is the end user and must pay combined sales tax at purchase.  $\$38,000 \times 9.5\% = \$3,610$ . The owner's exempt status does not transfer to the contractor's material purchases.

21. C. Change order procedure — Change orders should be written and signed by both parties before work begins. The lack of written documentation weakens the contractor's recovery position, though verbal agreements are not automatically void.

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

23. C. Excavation protection — OSHA requires protection at 5 feet or deeper unless in stable rock. The 5'2" trench exceeds the threshold. There is no margin of tolerance.

24. B. GMP shared savings — The \$120,000 savings ( $\$2,000,000 - \$1,880,000$ ) is split per the 60/40 clause: owner receives \$72,000 (60%) and contractor receives \$48,000 (40%).

25. D. Remote claimant — A supplier without a direct contract with the owner is a remote claimant. The supplier must send a Notice of Nonpayment within 90 days of the last delivery and file a lien within 90 days.

26. C. Franchise tax — Tax = \$0.25 per \$100 of the greater of net worth (\$350,000) or tangible property (\$420,000). Using \$420,000:  $\$420,000 \div 100 \times \$0.25 = \$1,050$ .

27. B. Cost-plus-fixed-fee — The \$72,000 fee remains constant regardless of actual costs. Whether costs rise or fall, the fixed fee does not change.

28. A. QA departure — Report within 10 days (by January 30) and replace within 90 days (by April 20).

29. C. Licensing threshold — Total =  $\$8,400 + \$4,200 + \$3,100 + \$7,800 + \$1,800 = \$25,300$ . Exceeds  $\$25,000$ . All components are included.

30. A. FMLA eligibility — Employer has 50+ employees, worker has 15 months' tenure (exceeds 12), and spousal care for a serious health condition qualifies. All conditions are met.

31. C. GL tiers — The  $\$680,000$  limit falls in the  $\$501,000$ – $\$1,500,000$  tier requiring  $\$500,000$  minimum GL. The  $\$250,000$  policy is insufficient.

32. A. Legal capacity — A person under court-appointed guardianship may lack the legal capacity to enter binding contracts without guardian approval. Legal capacity is one of five essential contract elements.

33. D. Scaffold safety factor — OSHA requires a minimum 4:1 safety factor for all scaffolding. A 3.5:1 factor does not meet this standard regardless of height.

34. B. Roofing licensing — All roofing subcontractors must be licensed since January 1, 2014, regardless of contract value.

35. A. Unlimited license — Both values must each exceed  $\$300,000$ . Net worth ( $\$280,000$ ) falls short. The contractor does not qualify.

36. B. Franchise tax — Tax =  $\$0.25$  per  $\$100$  of the greater of net worth ( $\$430,000$ ) or tangible property ( $\$390,000$ ). Using  $\$430,000$ :  $\$430,000 \div 100 \times \$0.25 = \$1,075$ .

37. C. Termination for convenience — Contractor receives costs plus earned profit. No anticipated profit on unperformed work. Total =  $\$497,250 + \$55,250 = \$552,500$ .

38. B. E-Verify — Tennessee requires E-Verify for employers with 50+ employees. With 65 employees, both I-9 and E-Verify are required. I-9 is independently required for all employers.

39. A. Lump-sum risk — Without a differing site conditions clause, the contractor bears unforeseen subsurface costs. The contractor must absorb the  $\$38,000$ .

40. B. Fatality reporting — Fatalities require reporting within 8 hours of the employer learning. The office learned at 1:30 PM, so the deadline is 9:30 PM Monday.

41. B. HVAC licensing — BC excludes HVAC work exceeding  $\$25,000$ . At  $\$28,000$ , the threshold is exceeded and a separate license is required.

42. D. Bond amounts — Both performance and payment bonds are typically 100% of contract value. Performance guarantees completion; payment guarantees payment to subs and suppliers.

43. A. Business tax deduction — Payments to properly licensed subcontractors are deductible from gross receipts. The \$380,000 qualifies for the deduction.
44. C. Drug-Free Workplace — All four components required: pre-employment, reasonable suspicion, post-accident, and random testing.
45. B. Unconditional waiver — Effective immediately upon signing regardless of payment. The contractor has released lien rights even though payment has not been received.
46. C. Monetary limit — Net worth = \$250,000. Working capital = \$240,000 - \$115,000 = \$125,000. Limit =  $10 \times \$125,000 = \$1,250,000$ . Below the \$1,300,000 project.
47. D. Addenda — Addenda modify previously issued documents and represent the most current intent. Powder-coated aluminum controls.
48. C. Bond vs. insurance — A bond is a three-party agreement (principal, obligee, surety). The contractor must reimburse the surety for claims paid. Insurance absorbs losses permanently.
49. A. LMC threshold — The LMC is required at \$100,000 or more. At \$97,000, the project falls below the threshold. No LMC is needed.
50. B. Lien timing — Filed 87 days after last furnishing, within the 90-day period. Timely. Enforcement lawsuit due within one year of filing.