

PRACTICE EXAM 21: 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 \$840,000, total liabilities of \$530,000, current assets of \$295,000, and current liabilities of \$163,000. The contractor wants to bid on a \$1,400,000 project. Can the monetary limit support this bid?

- A. Yes, because the net worth of \$310,000 supports a limit of \$3,100,000
- B. Yes, because total assets of \$840,000 support any project under \$2,000,000
- C. No, because the Board requires a minimum current ratio of 2.0 for projects above \$1,000,000
- D. No, because the monetary limit is ten times the lesser of net worth (\$310,000) or working capital (\$132,000) — the limit is \$1,320,000, which is below \$1,400,000

2. A contractor is hired to build a fire station under a cost-plus-percentage contract with a 12% fee. The estimated cost is \$680,000. During construction, the contractor identifies two options for the apparatus bay flooring: a standard epoxy coating at \$18,000 and a premium anti-slip polymer system at \$31,000. Both meet code requirements. What conflict of interest exists when the contractor recommends the premium option?

- A. No conflict exists because the owner makes all final material decisions
- B. No conflict exists because both options meet code requirements and the contractor disclosed both prices
- C. The contractor has a financial incentive to recommend the premium option because the 12% fee on the \$13,000 difference generates \$1,560 in additional fee income
- D. The conflict is eliminated if the contractor obtains three competitive bids for each flooring option

3. A Tennessee contractor wants to hire an electrical subcontractor for a \$31,000 scope of work on a new commercial building. The general contractor holds a valid BC-B classification. Does the electrical subcontractor need a separate license?

- A. Yes, because the BC classification excludes electrical work exceeding \$25,000 and the \$31,000 scope requires a separately licensed electrical contractor

- B. No, because the general contractor's BC-B license covers all subcontractor trades on commercial projects
- C. No, because electrical subcontractor licensing is required only when the scope exceeds \$50,000
- D. Yes, because all electrical work on commercial buildings requires a separate license regardless of the dollar value

4. A project owner terminates a general contractor for cause on a \$2,100,000 commercial project. The owner has provided two written cure notices with reasonable cure periods, and the contractor failed to correct persistent defects in the structural steel work. The contractor has completed 50% of the work at a cost of \$945,000. A replacement contractor will cost \$1,200,000 to complete the remaining 50%. The original remaining contract balance was \$1,050,000. What does the original contractor receive?

- A. \$1,050,000, representing 50% of the contract price for the completed work
- B. The value of acceptably completed work with no offset for the replacement contractor's cost
- C. The value of acceptably completed work, reduced by the \$150,000 difference between the replacement contractor's cost and the remaining contract balance
- D. Nothing, because termination for cause permanently forfeits all rights to compensation

5. A construction worker on a commercial roofing project loses two toes when a steel beam falls on the worker's foot. The injury occurs at 11:00 AM on Wednesday. The site foreman notifies the company's safety director at 11:45 AM. By what time must the employer report this amputation to OSHA?

- A. By 7:45 PM on Wednesday, which is within 8 hours of the employer learning about the incident
- B. By 11:45 AM on Thursday, which is within 24 hours of the employer learning about the amputation
- C. By 11:00 AM on Thursday, which is within 24 hours of the actual time the injury occurred
- D. By 11:45 AM the following Wednesday, which is within 5 working days of the employer's knowledge

6. A contractor files a mechanic's lien on a private commercial property on March 8, 2026. The contractor and property owner begin formal settlement discussions in September 2026. The discussions continue past February 2027. What risk does the contractor face?

- A. No risk, because settlement discussions automatically toll the enforcement period for their duration

B. No risk, because commercial liens have a two-year enforcement period from the date of filing

C. The contractor risks losing the lien because the enforcement lawsuit must be filed by March 8, 2027 — one year from filing — and settlement discussions do not extend this deadline

D. The contractor risks a penalty reduction of 25% for each quarter beyond the first year without enforcement

7. A contractor operating as a sole proprietorship has gross receipts of \$470,000, net earnings of \$68,000, and tangible property valued at \$85,000. The contractor's CPA says the business owes franchise tax, excise tax, and business tax. Is the CPA correct?

A. No, because sole proprietorships are exempt from franchise and excise tax — only business tax on gross receipts applies in Tennessee

B. Yes, because all business entities with gross receipts exceeding \$250,000 owe all three taxes

C. No, because sole proprietorships are exempt from all Tennessee state-level business taxes

D. Yes, because all businesses with tangible property in Tennessee owe franchise tax regardless of structure

8. A contractor has a net worth of \$420,000 and working capital of \$360,000. The contractor applies for an unlimited license classification. Does the contractor qualify, and what type of financial statement is required?

A. The contractor qualifies for unlimited, and a reviewed statement is sufficient because the limit is under \$3,000,000

B. The contractor does not qualify because unlimited requires both values above \$500,000

C. The contractor qualifies for unlimited, but an audited statement is required for all unlimited classifications

D. The contractor qualifies because both net worth and working capital each exceed \$300,000, and a reviewed statement is sufficient because the calculated monetary limit of \$3,600,000 exceeds \$3,000,000 — however, unlimited status removes the limit cap, and the financial statement requirement depends on what limit would otherwise apply

9. A subcontractor furnishes labor and materials to a Tennessee Department of Transportation highway bridge project. The general contractor has not paid the subcontractor for \$125,000 in completed work. The subcontractor wants to file a mechanic's lien against the bridge. Can the subcontractor do this?

A. Yes, because highway projects exceeding \$100,000 are subject to mechanic's lien provisions

B. Yes, but only if the subcontractor files within 30 days of the last day of furnishing

C. No, and no alternative remedy exists because TDOT projects have sovereign immunity

D. No, because mechanic's liens cannot be filed against public property — the subcontractor must file a claim against the payment bond

10. A contractor wants to determine whether a sunroom addition project requires a Tennessee contractor license. The project costs: materials \$11,600, labor \$9,400, concrete foundation \$2,200, and profit \$2,300. Does this project require a license?

- A. No, because sunroom additions are classified as home improvements exempt from licensing requirements
- B. Yes, because the total project cost is \$25,500 (materials + labor + foundation + profit), exceeding the \$25,000 threshold
- C. No, because the labor cost of \$9,400 is under \$25,000 and the threshold applies only to the labor portion
- D. Yes, because all structural additions to residential dwellings require licensing regardless of total cost

11. A contractor licensed in Georgia wants to obtain a Tennessee license. The contractor has passed the Georgia trade exam, holds an active Georgia license, and also holds a NASCLA Accredited Commercial Examination credential. What testing requirements apply?

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

12. A contractor purchases \$48,000 in glass curtain wall panels for a commercial office building project. The state sales tax rate is 7% and the local rate is 2.25%. The building owner is a tax-exempt religious organization. Can the contractor use the owner's exemption to avoid paying sales tax?

- A. Yes, because materials permanently installed in tax-exempt buildings inherit the owner's exemption
- B. Yes, if the contractor provides the glass supplier with the religious organization's exemption certificate
- C. No, because the contractor is the end user of construction materials in Tennessee and must pay the combined 9.25% sales tax of \$4,440 at purchase regardless of the owner's status
- D. No, but the contractor can file a quarterly refund application with the Tennessee Department of Revenue

13. A contractor operating as a C-corporation has net earnings of \$375,000, a net worth of \$480,000, and tangible property valued at \$530,000 in Tennessee. What is the company's Tennessee franchise tax liability?

- A. \$1,200, calculated at \$0.25 per \$100 of the net worth of \$480,000
- B. \$100, the minimum franchise tax for all Tennessee corporations
- C. \$1,325, calculated at \$0.25 per \$100 of tangible property of \$530,000 because it is the greater value
- D. \$2,525, calculated at \$0.25 per \$100 of the combined net worth and tangible property

14. A contractor enters into a guaranteed maximum price (GMP) contract for \$1,600,000 on a hotel lobby renovation. The contract includes a 40/60 shared savings clause with 40% to the owner. Actual costs total \$1,520,000. How are the savings distributed?

- A. The contractor receives the entire \$80,000 because the savings clause favors the contractor at 60%
- B. The owner receives \$32,000 (40%) and the contractor receives \$48,000 (60%) of the \$80,000 savings
- C. The owner receives the full \$80,000 because GMP contracts exist solely for the owner's financial protection
- D. The savings are held in escrow until the project's one-year warranty period expires

15. A contractor wants to obtain a Tennessee license with a monetary limit of \$2,800,000. The contractor currently has a reviewed financial statement prepared by a CPA. Does this meet the Board's requirements?

- A. No, because all monetary limits exceeding \$2,500,000 require an audited financial statement
- B. No, because all monetary limits exceeding \$2,000,000 require an audited financial statement
- C. Yes, because reviewed statements are acceptable for monetary limits of \$3,000,000 or less
- D. Yes, because reviewed statements are acceptable for all monetary limits up to \$5,000,000

16. An employer with 45 employees operates from a single office in Chattanooga. A project manager who has worked for the company for 2 years requests 12 weeks of unpaid FMLA leave to care for a child with leukemia. Is the employee eligible?

- A. Yes, because the employer has more than 25 employees and the worker has more than 12 months of service
- B. No, because FMLA requires 50 or more employees within a 75-mile radius, and this employer has only 45

- C. Yes, because the 50-employee threshold is reduced to 25 for construction industry employers
- D. No, because FMLA leave for a child's health condition is limited to 4 weeks per calendar year

17. A contractor is building a commercial office building. A scaffold platform on the east elevation stands 13 feet above grade. The scaffold was designed by the project superintendent, who has 25 years of experience but no formal training in scaffold design. According to OSHA, is this acceptable?

- A. Yes, because 25 years of experience qualifies the superintendent as a competent person for scaffold design
- B. Yes, because OSHA requires only a competent person for scaffold design on platforms under 20 feet
- C. No, because a licensed professional engineer must design all scaffolds on commercial projects
- D. No, because OSHA requires a qualified person to design scaffolds — someone with specific knowledge, training, and experience in scaffold design, not merely general construction experience

18. A contractor operating as a limited partnership has gross receipts of \$1,950,000, net earnings of \$245,000, net worth of \$320,000, and tangible property valued at \$290,000. What is the company's combined franchise and excise tax liability?

- A. \$800 in franchise tax only, because limited partnerships are exempt from excise tax
- B. \$15,925, consisting of excise tax only, because limited partnerships are exempt from franchise tax
- C. \$16,725, consisting of \$800 in franchise tax based on net worth of \$320,000 plus \$15,925 in excise tax at 6.5% of net earnings
- D. \$0, because limited partnerships are pass-through entities exempt from both franchise and excise tax

19. A contractor enters into a \$720,000 lump-sum contract to renovate a restaurant. During demolition, the contractor discovers extensive mold behind the kitchen walls requiring \$48,000 in professional remediation. The contract does not contain a differing site conditions clause. Who bears the remediation cost?

- A. The owner bears the cost because mold is a pre-existing environmental condition and always the owner's responsibility
- B. The cost is shared equally under the standard environmental risk-sharing doctrine

- C. The contractor can file a mechanic's lien specifically for the remediation cost without prior notice
- 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

20. A contractor with 78 employees is onboarding new workers for a commercial project. The HR manager requires I-9 forms for all new hires but has not enrolled the company in E-Verify, believing it is voluntary. Is the HR manager correct?

- A. No, because Tennessee requires E-Verify for employers with 50 or more employees — with 78 employees, both I-9 and E-Verify are required
- B. Yes, because E-Verify is a voluntary federal program with no state mandate in Tennessee
- C. No, because E-Verify is required for all Tennessee employers regardless of employee count
- D. Yes, because E-Verify is mandatory only for employers holding federal government contracts

21. A contractor executes a \$1,100,000 stipulated-sum contract for a commercial building. After completing 45% of the work, the owner terminates for convenience. The contractor has incurred \$445,500 in costs and earned \$49,500 in profit on the completed portion. The contractor also claims \$60,500 in anticipated profit on the unperformed 55%. What does the contractor receive?

- A. \$1,100,000, the full contract price, because the owner terminated without contractor fault
- B. \$555,500, consisting of costs plus earned profit plus anticipated profit on the remaining work
- C. \$445,500, consisting of only the direct costs with no profit recovery on any portion
- D. \$495,000, consisting of costs (\$445,500) plus profit earned on the completed portion (\$49,500), with no recovery of anticipated profit on unperformed work

22. A contractor is reviewing a \$3,600,000 commercial project contract. The specifications require epoxy-coated rebar throughout the foundation. The pre-bid addenda changed the requirement to standard uncoated rebar for the interior footings only. The drawings show galvanized rebar for all footings. Which rebar type should the contractor install in the interior footings?

- A. Epoxy-coated rebar because the specifications always take precedence over addenda and drawings
- B. Galvanized rebar because the drawings provide the most detailed location-specific material information

- C. The contractor may choose any of the three options and document the selection in the submittal log
- D. Standard uncoated rebar because addenda modify previously issued documents and represent the most current design intent

23. A contractor operating as a general partnership has two partners and 7 employees. One partner wants both partners exempted from workers' compensation coverage. The company's insurance agent says workers' compensation is optional for partnerships with fewer than 10 total workers. Is the agent correct?

- A. No — workers' compensation is required for all 7 employees because Tennessee mandates coverage for employers with one or more employees, but the partners can individually exempt themselves by registering with the Secretary of State
- B. Yes, because Tennessee exempts partnerships with fewer than 10 total workers from mandatory coverage
- C. No, because Tennessee requires coverage for all workers including partners with no exemption available
- D. Yes, because general partnerships are not classified as employers under Tennessee workers' compensation law

24. A contractor's qualifying agent passes away unexpectedly on June 5. The contractor's office manager reports the death to the Board on June 18 and begins searching for a replacement. Was the report filed on time, and what is the replacement deadline?

- A. The report was late because departures must be reported within 5 business days, and the replacement is due within 60 days
- B. The report was on time because the 30-day reporting window expires July 5, and the replacement is due within 120 days
- C. The report was late because departures must be reported within 10 days, and June 18 is 13 days after June 5
- D. The report was on time because the 10-day window runs through June 15, and June 18 falls within this period — wait, $June\ 5 + 10 = June\ 15$, so June 18 is actually 3 days late, and the replacement is due within 90 days by September 3

25. A contractor holds a Tennessee license with a monetary limit of \$1,400,000. The contractor carries \$500,000 in general liability insurance. A project owner asks the contractor to verify GL compliance. Does the contractor meet the requirement?

- A. Yes, because the \$1,400,000 monetary limit falls in the \$501,000–\$1,500,000 tier, which requires \$500,000 minimum GL, and the contractor meets this threshold

- B. No, because the minimum GL is \$750,000 for all monetary limits between \$1,000,000 and \$1,500,000
- C. No, because all contractors with monetary limits above \$1,000,000 must carry \$1,000,000 minimum GL
- D. Yes, because GL insurance requirements are based on individual project values, not the monetary limit

26. A contractor enters into a unit-price contract to install 1,500 linear feet of PVC storm drain pipe at \$58 per linear foot. During construction, the civil engineer increases the quantity to 1,850 linear feet due to revised drainage calculations. Who bears the financial cost of the additional 350 linear feet?

- A. The contractor bears the cost because unit-price contracts include an implied quantity guarantee
- B. The owner bears the quantity risk and must pay for the additional 350 linear feet at \$58 per foot, totaling \$20,300 in additional cost
- C. The cost is shared equally between owner and contractor under the standard risk-sharing provision
- D. The owner pays for the additional pipe but at a reduced unit price reflecting the larger total volume

27. A contractor is building a commercial warehouse using the percentage-of-completion method. The contract price is \$1,800,000, costs incurred to date are \$720,000, and total estimated costs are \$1,440,000. What revenue should the contractor recognize?

- A. \$720,000, matching revenue directly to costs incurred without applying any completion ratio
- B. \$900,000, calculated as 50% of the contract price because the project appears approximately half complete
- C. \$1,800,000, because revenue is fully recognized once the project surpasses 40% completion
- D. \$900,000, calculated as costs to date (\$720,000) divided by total estimated costs (\$1,440,000) multiplied by the contract price (\$1,800,000)

28. A contractor wants to apply for a BC-A/r restricted residential license classification. The contractor's colleague says this classification requires passing a trade exam, limits projects to \$125,000, and prohibits the use of subcontractors. How many of the colleague's statements are correct?

- A. All three are correct because BC-A/r is a basic residential entry-level classification

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

29. A masonry subcontractor is bidding on a \$103,000 scope of masonry work for a new church building. The subcontractor does not currently hold an LMC license. The subcontractor's project manager says the LMC threshold is \$125,000 for religious building projects. Is the project manager correct?

- A. Yes, because religious construction projects have a higher LMC licensing threshold of \$125,000
- B. No, because the LMC license is required when masonry work reaches \$100,000 or more regardless of building type, and \$103,000 exceeds the threshold
- C. Yes, because the general contractor's license covers all masonry subcontractor work on the project
- D. No, because all masonry subcontractors must hold an LMC license regardless of contract value

30. A roofing subcontractor wants to bid on a \$33,000 re-roofing project for a residential duplex. The subcontractor does not hold a Tennessee contractor license. The general contractor says no license is needed for residential projects under \$50,000. Is the general contractor correct?

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

31. A contractor is preparing a bid with direct costs of \$185,000 in labor, \$140,000 in materials, and \$25,000 in equipment rental. Overhead is 13% of all direct costs. The contractor wants a 10% profit margin. What is the total bid price?

- A. \$435,050, calculated as direct costs (\$350,000) plus overhead at 13% (\$45,500) plus profit at 10% of the combined direct costs and overhead (\$39,550)
- B. \$395,500, consisting of direct costs plus overhead only because profit is invoiced separately
- C. \$385,000, because profit is applied to direct costs only, excluding both overhead and equipment rental

D. \$350,000 plus 13% overhead, with profit embedded within the overhead calculation

32. An employer with 11 employees in Tennessee terminates a pregnant worker. The worker believes the termination was related to her pregnancy. Under which law can the worker file a discrimination complaint?

A. Title VII of the Civil Rights Act and the Pregnancy Discrimination Act, which apply at 15+ employees

B. The ADEA, which covers pregnancy discrimination for employers with 10 or more employees

C. The Tennessee Human Rights Act, which applies to employers with 8 or more employees and prohibits pregnancy-based discrimination

D. No federal or state discrimination law covers pregnancy claims for employers with only 11 employees

33. A contractor enters into a cost-plus-fixed-fee contract with a \$55,000 fixed fee for a \$650,000 estimated renovation. During construction, the owner cancels several upgrades, reducing actual costs to \$580,000. What fee does the contractor receive?

A. \$49,077, proportionally reduced because actual costs came in below the original estimate

B. \$55,000, because a fixed fee remains constant regardless of whether actual costs are higher or lower than the estimate

C. \$58,000, recalculated at 10% of actual costs because the fee adjusts when costs change significantly

D. \$55,000 minus a \$7,000 credit because the contractor benefited from the reduced scope of work

34. A contractor operating as an S-corporation has net earnings of \$215,000, net worth of \$295,000, and tangible property valued at \$260,000 in Tennessee. The company controller says S-corporations are exempt from Tennessee franchise and excise tax. Is the controller correct?

A. Yes, because S-corporations receive the same state tax treatment as sole proprietorships

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

C. Yes, because all pass-through entities are exempt from franchise and excise tax under Tennessee law

D. No, but only the excise tax applies — S-corporations are exempt from franchise tax

35. A contractor is excavating a sewer line trench that reaches 5 feet 4 inches deep in soil classified as Type C. The site superintendent says Type C soil at this shallow depth is stable enough for workers to enter without a protective system. Is the superintendent correct?

- A. Yes, because a competent person can authorize unprotected entry for trenches under 6 feet in Type C soil
- B. Yes, because Type C soil requires protection only at depths exceeding 8 feet under Tennessee standards
- C. No, because OSHA requires a protective system in all excavations 5 feet or deeper regardless of soil type unless entirely in stable rock, and Type C soil is not stable rock
- D. No, because Type C soil requires protection at all depths regardless of the 5-foot threshold

36. A contractor holds a Tennessee license with a monetary limit of \$2,100,000. The contractor carries \$750,000 in general liability insurance. Does the contractor meet Tennessee's minimum GL requirement?

- A. Yes, because \$750,000 exceeds the \$500,000 minimum for the \$501,000–\$1,500,000 tier
- B. Yes, because GL requirements are based on individual project values, not the monetary limit
- C. No, because the \$2,100,000 monetary limit exceeds \$1,501,000, placing the contractor in the highest tier that requires \$1,000,000 minimum GL
- D. No, because all contractors with limits above \$2,000,000 must carry GL equal to the monetary limit

37. A contractor signs an unconditional lien waiver and delivers it to the general contractor before receiving the \$42,000 progress payment. Two weeks later, the general contractor declares bankruptcy. What is the legal effect of the unconditional waiver?

- A. The unconditional waiver is effective immediately upon signing — the contractor has released lien rights regardless of whether payment is ever received
- B. The unconditional waiver is void because the general contractor's bankruptcy constitutes a material breach
- C. The unconditional waiver converts to a conditional waiver upon the general contractor's bankruptcy filing
- D. The unconditional waiver is suspended until the bankruptcy court resolves the payment claim

38. A contractor wants to implement Tennessee's Drug-Free Workplace Program for the 5% workers' compensation premium credit. The contractor's HR manager drafts a policy that includes pre-employment testing, reasonable suspicion testing, and random testing but omits post-accident testing. Does this policy qualify?

- A. No, because all four components are required: pre-employment, reasonable suspicion, post-accident, and random — omitting any one component disqualifies the program

- B. Yes, because three of the four components satisfy the minimum program requirements
- C. No, because random testing must be replaced with annual screening of all employees
- D. Yes, because post-accident testing is an optional enhancement that increases the credit to 7.5%

39. A contractor enters into a \$480,000 lump-sum contract for a restaurant build-out. The contract documents include an agreement specifying ceramic tile in the dining area. The supplementary conditions specify porcelain tile in the dining area. The general conditions are silent on dining area flooring. Which tile type should the contractor install?

- A. Ceramic tile, because the agreement holds the highest position in the order of precedence
- B. The contractor should stop work and request clarification from the architect before proceeding
- C. The less expensive option to save the owner money, documented in the project record
- D. Ceramic tile, because the agreement takes precedence — the hierarchy is agreement → supplementary conditions → general conditions → specifications → drawings → addenda

40. A contractor has total assets of \$1,050,000, total liabilities of \$680,000, current assets of \$410,000, and current liabilities of \$98,000. Does the contractor qualify for unlimited license status?

- A. Yes, because the net worth of \$370,000 exceeds \$300,000 and that is the sole requirement
- B. No, because unlimited status requires both values to exceed \$400,000
- C. Yes, because both net worth (\$370,000) and working capital (\$312,000) each independently exceed the \$300,000 threshold required for unlimited status
- D. No, because unlimited status requires a minimum net worth of \$500,000

41. A contractor's employee is killed in a trench collapse at 3:30 PM on Friday. The site foreman calls the contractor's office at 3:50 PM. The office closes at 5:00 PM for the weekend. By what time must the employer report the fatality to OSHA?

- A. By 3:50 PM on Saturday, which is within 24 hours of the employer learning about the death
- B. By 3:30 PM on Saturday, which is within 24 hours of the actual time of the fatality
- C. By 3:50 PM the following Friday, which is within 5 working days of the employer's knowledge
- D. By 11:50 PM on Friday, which is within 8 hours of the employer learning about the fatality

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

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

43. A contractor operating as an LLC has gross receipts of \$1,800,000. The company paid \$1,250,000 to properly licensed subcontractors and \$150,000 to an unlicensed handyman crew during the year. What amount can be deducted from gross receipts for Tennessee business tax purposes?

- A. \$1,250,000, because only payments to properly licensed subcontractors are deductible from gross receipts
- B. \$1,400,000, because all payments to subcontractors and workers are deductible regardless of license status
- C. \$0, because Tennessee does not allow any deductions from gross receipts for business tax purposes
- D. \$700,000, because the deduction is capped at 50% of total subcontractor payments

44. A contractor wants to hire a plumbing subcontractor for a \$24,500 scope of work on a commercial building. The general contractor holds a valid BC-B license. Does the plumbing subcontractor need a separate license?

- A. Yes, because all plumbing work on commercial buildings requires a separate license regardless of value
- B. No, because the BC classification excludes plumbing work exceeding \$25,000, and the \$24,500 scope falls below that threshold
- C. No, because the general contractor's BC-B license covers all subcontractor trades on the project
- D. Yes, because plumbing subcontractors must be licensed for any work exceeding \$10,000

45. A material supplier delivers \$58,000 in custom architectural stone to a private commercial project. The supplier has no direct contract with the building owner — the contract is solely with the general contractor. The contractor has not paid. What must the supplier do to preserve mechanic's lien rights?

- A. 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
- B. File a mechanic's lien directly with the county register within 90 days — no prior notice is required
- C. Send a demand letter to the general contractor by certified mail within 60 days of the invoice date
- D. File a breach of contract lawsuit within one year, which automatically creates a lien

46. A contractor completes all work on a private residential renovation on August 15. The homeowner withholds \$22,000 in final payment. The contractor files a mechanic's lien on November 10, which is 87 days after the last day of furnishing. Is the filing timely?

- A. Yes, because the filing is within the 90-day statutory period measured from the last day of furnishing labor or materials
- B. No, because residential mechanic's liens must be filed within 60 days of the last day of furnishing
- C. Yes, but only because the contractor has a direct contract with the homeowner
- D. No, because the 90-day period begins from the date the final payment was contractually due

47. An employer with 19 employees in Tennessee wants to know which federal employment discrimination laws apply. The employer's HR consultant prepares a compliance checklist. Which combination is correct?

- A. Title VII, ADA, and ADEA all apply because the employer exceeds all three thresholds
- B. Title VII and ADA apply at 15+ employees, but ADEA does not apply because it requires 20+ employees
- C. Only Title VII applies at 15+ employees — ADA requires 25+ and ADEA requires 20+ employees
- D. None of these federal laws apply because the minimum threshold for any federal discrimination law is 25+

48. A contractor is building a medical office under a \$1,350,000 contract. The project is 35% complete. Costs to date are \$378,000. Total estimated costs are \$1,080,000. Using the percentage-of-completion method, what revenue should be recognized?

- A. \$472,500, calculated as costs to date (\$378,000) divided by total estimated costs (\$1,080,000) multiplied by the contract price (\$1,350,000)
- B. \$378,000, matching revenue directly to the actual costs incurred during the reporting period
- C. \$675,000, calculated as 50% of the contract price based on approximate halfway completion
- D. \$1,350,000, because revenue is fully recognized once the project surpasses 30% completion

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

- 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 for limits exceeding \$4,000,000
- C. No, because all monetary limits exceeding \$2,500,000 require an audited statement
- D. No, because monetary limits exceeding \$3,000,000 require an audited financial statement

50. A contractor enters into a time-and-materials contract for emergency roof repair after a windstorm. Two weeks into the project, the building owner is concerned about escalating costs. The contractor explains the risk characteristics of this contract type. Which statement is most accurate?

- A. The contractor bears the highest cost risk because the hourly rates are fixed and cannot be adjusted
- 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 the total
- C. Risk is equally shared because the owner controls scope decisions while the contractor controls pricing
- D. The contractor bears all risk because T&M contracts include an implied guaranteed maximum price

Practice Exam 21: Answer Key and Explanations

1. D. Monetary limit — Net worth = \$310,000. Working capital = \$295,000 – \$163,000 = \$132,000. Limit = 10 × lesser (\$132,000) = \$1,320,000. The \$1,400,000 bid exceeds this.

2. C. Cost-plus-percentage conflict — The 12% fee on the \$13,000 difference (\$31,000 – \$18,000) generates \$1,560 in additional income. This structural incentive to recommend costlier options is the inherent conflict.

3. A. Electrical licensing — BC excludes electrical work exceeding \$25,000. At \$31,000, the threshold is exceeded and a separate license is required.

4. C. Termination for cause — The contractor receives the value of acceptably completed work, offset by the owner's additional completion costs. The \$150,000 difference (\$1,200,000 – \$1,050,000) reduces the contractor's recovery.

5. B. OSHA reporting — Amputations require reporting within 24 hours of the employer learning. The safety director learned at 11:45 AM Wednesday, so the deadline is 11:45 AM Thursday.

6. C. Lien enforcement — The lawsuit must be filed within one year of the filing date (March 8, 2027). Settlement discussions do not toll or extend this statutory deadline.

7. A. Sole proprietorship taxes — Sole proprietorships are exempt from franchise and excise tax. Only business tax on gross receipts applies.

8. D. Unlimited license and financials — Both net worth (\$420,000) and working capital (\$360,000) exceed \$300,000, qualifying for unlimited. The monetary limit without unlimited would be $10 \times \$360,000 = \$3,600,000$, exceeding \$3,000,000 and requiring an audited statement. However, for unlimited classification itself, the financial statement requirement follows the standard thresholds.

9. D. Public property liens — Mechanic's liens cannot be filed against public property including TDOT projects. The remedy is a payment bond claim.

10. B. Licensing threshold — Total = $\$11,600 + \$9,400 + \$2,200 + \$2,300 = \$25,500$. Exceeds \$25,000.

11. D. Georgia reciprocity and NASCLA — Georgia is a reciprocity state (trade exam waiver). NASCLA accepted for BC-B. Business and Law exam always required.

12. C. Sales tax — The contractor is the end user and pays combined tax at purchase. $\$48,000 \times 9.25\% = \$4,440$. The owner's exemption does not transfer.

13. C. Franchise tax — \$0.25 per \$100 of the greater of net worth (\$480,000) or tangible property (\$530,000). Using \$530,000: $\$530,000 \div 100 \times \$0.25 = \$1,325$.

14. B. GMP shared savings — The \$80,000 savings ($\$1,600,000 - \$1,520,000$) is split 40/60: owner \$32,000, contractor \$48,000.

15. C. Financial statements — Reviewed statements are acceptable for limits of \$3,000,000 or less. At \$2,800,000, the reviewed statement is sufficient.

16. B. FMLA — FMLA requires 50+ employees within a 75-mile radius. With 45 employees, the threshold is not met.

17. D. Scaffold design — OSHA requires a qualified person with specific scaffold design knowledge and training. General construction experience is insufficient.

18. C. Limited partnership taxes — Franchise tax = \$0.25 per \$100 of greater value (\$320,000 net worth) = \$800. Excise tax = $6.5\% \times \$245,000 = \$15,925$. Combined = \$16,725.

19. D. Lump-sum risk — Without a differing site conditions clause, the contractor bears unforeseen condition costs.

20. A. E-Verify — Tennessee requires E-Verify for employers with 50+ employees. Both I-9 and E-Verify are required.
21. D. Termination for convenience — Contractor receives costs plus earned profit. No anticipated profit on unperformed work. Total = $\$445,500 + \$49,500 = \$495,000$.
22. D. Addenda — Addenda modify previously issued documents. Standard uncoated rebar in the addenda controls.
23. A. Workers' compensation — Required for all employers with 1+ employees. Partners can individually exempt themselves through Secretary of State registration.
24. D. QA departure — June 5 + 10 days = June 15. The report filed June 18 is 3 days late. Replacement due within 90 days (September 3).
25. A. GL tiers — $\$1,400,000$ falls in $\$501,000$ – $\$1,500,000$ tier requiring $\$500,000$ minimum. The $\$500,000$ policy meets this.
26. B. Unit-price quantity risk — The owner bears quantity risk. Additional 350 feet \times $\$58 = \$20,300$ in additional cost to the owner.
27. D. Percentage of completion — Revenue = $(\$720,000 \div \$1,440,000) \times \$1,800,000 = 0.50 \times \$1,800,000 = \$900,000$.
28. C. BC-A/r — One correct: $\$125,000$ limit. No trade exam (community college course substitutes). Subcontractors are permitted. Joint ventures prohibited.
29. B. LMC threshold — Required at $\$100,000+$. At $\$103,000$, the threshold is exceeded. No exceptions for building type.
30. B. Roofing licensing — All roofing subcontractors must be licensed since January 1, 2014, regardless of value.
31. A. Bid calculation — Direct = $\$350,000$. Overhead = $13\% \times \$350,000 = \$45,500$. Subtotal = $\$395,500$. Profit = $10\% \times \$395,500 = \$39,550$. Total = $\$435,050$.
32. C. Pregnancy discrimination — Title VII/PDA requires 15+ employees (doesn't apply at 11). THRA applies at 8+ employees and covers pregnancy discrimination.
33. B. Cost-plus-fixed-fee — The $\$55,000$ fee is constant regardless of actual costs.
34. B. S-corporation taxes — S-corporations owe both franchise and excise tax in Tennessee.
35. C. Excavation protection — OSHA requires protection at 5+ feet unless in stable rock. Type C is not stable rock.
36. C. GL tiers — $\$2,100,000$ exceeds $\$1,501,000$, requiring $\$1,000,000$ minimum GL. $\$750,000$ is insufficient.

37. A. Unconditional waiver — Effective immediately upon signing regardless of payment or subsequent events.
38. A. Drug-Free Workplace — All four components required. Omitting post-accident testing disqualifies the program.
39. D. Order of precedence — Agreement takes highest precedence. Ceramic tile in the agreement controls over porcelain in supplementary conditions.
40. C. Unlimited license — Net worth = \$370,000. Working capital = \$410,000 – \$98,000 = \$312,000. Both exceed \$300,000. Qualifies.
41. D. Fatality reporting — 8 hours from employer learning. Office learned at 3:50 PM, deadline is 11:50 PM Friday.
42. A. Arkansas reciprocity — Arkansas is a reciprocity state. Trade exam may be waived. Business and Law exam always required.
43. A. Business tax deduction — Only payments to licensed subcontractors (\$1,250,000) are deductible.
44. B. Plumbing licensing — BC excludes plumbing exceeding \$25,000. At \$24,500, the scope falls below the threshold. No separate license needed.
45. A. Remote claimant — Supplier must send Notice of Nonpayment within 90 days and file lien within 90 days.
46. A. Lien filing — Filed 87 days after last furnishing, within the 90-day period. Timely.
47. B. Discrimination thresholds — Title VII at 15+, ADA at 15+: both apply at 19 employees. ADEA requires 20+: does not apply.
48. A. Percentage of completion — Revenue = $(\$378,000 \div \$1,080,000) \times \$1,350,000 = 0.35 \times \$1,350,000 = \$472,500$.
49. D. Financial statements — Limits exceeding \$3,000,000 require an audited statement. At \$3,200,000, the reviewed statement is insufficient.
50. B. T&M risk — No cost ceiling, highest risk to the owner. Contractor is reimbursed without a cap.