

# PRACTICE EXAM 22: 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 \$1,240,000, total liabilities of \$825,000, current assets of \$475,000, and current liabilities of \$135,000. The contractor wants to determine the monetary limit and whether unlimited status is achievable. What is the correct analysis?

- A. The limit is \$4,150,000 based on net worth, and the contractor qualifies for unlimited because net worth exceeds \$300,000
- B. The limit is \$3,400,000 based on working capital, and unlimited is not achievable because net worth must exceed \$500,000
- C. The limit is \$3,400,000 based on ten times the working capital of \$340,000 (the lesser value), and the contractor qualifies for unlimited because both net worth (\$415,000) and working capital (\$340,000) each exceed \$300,000
- D. The limit is \$4,150,000, and unlimited is not achievable because working capital must exceed \$400,000

2. A contractor operating as a limited partnership has gross receipts of \$2,300,000, net earnings of \$280,000, net worth of \$360,000, and tangible property valued at \$310,000 in Tennessee. What is the company's excise tax liability?

- A. \$18,200, calculated at 6.5% of the net earnings of \$280,000
- B. \$900, calculated at \$0.25 per \$100 of net worth of \$360,000
- C. \$0, because limited partnerships are pass-through entities exempt from excise tax
- D. \$775, calculated at \$0.25 per \$100 of tangible property of \$310,000

3. A general contractor on a private commercial project issues a \$65,000 progress payment check to a concrete subcontractor. The subcontractor signs an unconditional lien waiver and delivers it to the general contractor. The next day, the general contractor's bank account is frozen due to a federal tax lien. The subcontractor never receives the funds. What is the status of the unconditional waiver?

- A. The unconditional waiver is void because the general contractor committed fraud by issuing a check with a frozen account

- B. The unconditional waiver is effective immediately upon signing — the subcontractor has released lien rights regardless of whether payment is actually received
- C. The unconditional waiver converts to a conditional waiver when the bank account is frozen
- D. The unconditional waiver is suspended until the federal tax lien is resolved and the check clears

4. A contractor enters into a cost-plus-percentage contract with an 11% fee for a \$720,000 estimated commercial renovation. The contractor discovers that switching from specified custom millwork to a stock alternative would save the owner \$28,000 while meeting all design requirements. What financial impact does this recommendation create for the contractor?

- A. Recommending the savings costs the contractor \$3,080 in fee income because 11% of the \$28,000 reduction is eliminated from the total fee
- B. No financial impact because the fee percentage remains constant regardless of cost changes
- C. The contractor gains additional fee income by recommending the cheaper option as a value engineering credit
- D. The financial impact is neutral because the owner must independently approve all material substitutions

5. A subcontractor furnishes labor and materials to a city-funded fire station construction project. The general contractor has not paid the subcontractor for \$92,000 in completed work. The subcontractor wants to file a mechanic's lien against the fire station. Is this a viable remedy?

- A. Yes, because fire stations are classified as public safety buildings subject to mechanic's lien provisions
- B. Yes, but the lien must be filed within 30 days rather than the standard 90 days for public buildings
- C. No, and no remedy exists because municipal construction projects have sovereign immunity from all claims
- D. No, because mechanic's liens cannot be filed against public property — the subcontractor must pursue a claim against the payment bond

6. An employer with 16 employees in Tennessee terminates a worker who recently disclosed a hearing impairment. The worker wants to file a disability discrimination claim. Under which laws can the worker seek relief?

- A. Only the federal ADA, which applies to employers with 15 or more employees
- B. Both the federal ADA and the Tennessee Human Rights Act — the ADA applies at 15+ employees and the THRA applies at 8+ employees, both covering disability discrimination

- C. Only the THRA, because the ADA requires 25 or more employees for disability discrimination claims
- D. No law covers disability discrimination for employers with fewer than 20 employees

7. A contractor holds a Tennessee license with a monetary limit of \$470,000. The contractor carries \$100,000 in general liability insurance. Does the contractor meet Tennessee's minimum GL requirement?

- A. Yes, because the \$470,000 monetary limit falls in the up-to-\$500,000 tier, which requires a minimum of \$100,000 in GL coverage
- B. No, because all Tennessee contractors must carry a minimum of \$250,000 in GL insurance
- C. No, because the GL minimum is 25% of the monetary limit, requiring \$117,500 for this contractor
- D. Yes, because GL requirements are based on individual project values rather than the monetary limit

8. A contractor enters into a \$580,000 lump-sum contract for a veterinary clinic build-out. During construction, the owner verbally approves a \$16,000 upgrade to the surgical suite flooring. The contractor completes the work immediately. Two weeks later, the owner disputes the charge, claiming the upgrade was never authorized. What is the fundamental procedural issue?

- A. The change order is automatically void because all verbal approvals are prohibited under Tennessee law
- B. The change order should have been in writing and signed by both parties before the work began — the absence of written documentation makes the contractor's \$16,000 claim difficult to enforce
- C. The architect must authorize all change orders before either the owner or contractor can approve them
- D. The owner cannot dispute work that has been physically completed and incorporated into the building

9. A contractor operating as a sole proprietorship wants to calculate the approximate self-employment tax on \$142,000 in net self-employment income. What is the correct amount and payment schedule?

- A. Approximately \$21,726 at 15.3%, with estimated payments due quarterly on April 15, June 15, September 15, and January 15
- B. Approximately \$10,863 at 7.65% because sole proprietors pay only the employee half of FICA

- C. Approximately \$4,118 at 2.9% for the Medicare portion only, paid in a single annual installment
- D. Approximately \$17,608 at 12.4% for Social Security only, paid in semi-annual installments

10. A contractor files a mechanic's lien on a private residential property on July 22, 2025. The homeowner hires a real estate attorney who advises that the lien will automatically expire. By what date must the contractor file an enforcement lawsuit to prevent the lien from expiring?

- A. By October 20, 2025, which is 90 days from the date the lien was filed
- B. By January 19, 2026, which is 180 days from the date the lien was filed
- C. By July 22, 2026, which is one year from the date the lien was filed
- D. By July 22, 2027, which is two years from the date the lien was filed

11. A contractor operating as a C-corporation has net earnings of \$290,000, net worth of \$410,000, and tangible property valued at \$380,000 in Tennessee. What is the combined franchise and excise tax liability?

- A. \$1,025 in franchise tax only because C-corporations are exempt from excise tax in Tennessee
- B. \$18,850 in excise tax only because franchise tax applies only to LLCs and limited partnerships
- C. \$19,875, consisting of \$1,025 in franchise tax based on the net worth of \$410,000 plus \$18,850 in excise tax at 6.5% of net earnings
- D. \$0, because C-corporations with net earnings under \$300,000 are exempt from both taxes

12. A contractor wants to bid on a project requiring a monetary limit of \$3,800,000. The contractor currently has a reviewed financial statement. What change must the contractor make?

- A. The contractor must upgrade to an audited financial statement because monetary limits exceeding \$3,000,000 require an audit
- B. The reviewed statement is sufficient because the audit requirement applies only at limits above \$5,000,000
- C. The contractor must obtain a compiled statement prepared by a CPA for limits between \$3,000,000 and \$4,000,000
- D. No change is needed because reviewed statements are acceptable for all monetary limit levels

13. A contractor is building a commercial warehouse using the percentage-of-completion method. Contract price is \$2,200,000, costs incurred to date are \$880,000, and total estimated costs are \$1,760,000. What revenue should be recognized?

- A. \$880,000, matching revenue to costs incurred without applying any completion ratio
- B. \$1,100,000, calculated as 50% of the contract price because the project is approximately half complete
- C. \$1,100,000, calculated as costs to date (\$880,000) divided by total estimated costs (\$1,760,000) multiplied by the contract price (\$2,200,000)
- D. \$2,200,000, because revenue is fully recognized once a project surpasses 40% completion

14. A contractor licensed in North Carolina wants to obtain a Tennessee license. The contractor has a valid North Carolina license, has passed the NC trade exam, and holds a NASCLA Accredited Commercial Examination credential. What testing is required?

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

15. A contractor is excavating a utility trench that reaches 5 feet 8 inches deep in soil classified as Type B. The excavation foreman tells the crew to keep working without a protective system because the soil "looks solid." Is the foreman's direction compliant with OSHA?

- A. Yes, because a competent person's field assessment can override OSHA soil classification requirements
- B. Yes, because Type B soil has sufficient cohesion at depths under 6 feet to prevent cave-ins
- C. No, because Type B soil requires protection at all depths regardless of the 5-foot OSHA threshold
- D. No, because OSHA requires a protective system at 5 feet or deeper regardless of soil appearance, unless the excavation is entirely in stable rock

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

- A. Limited to residential projects under \$125,000, no trade exam required (community college course substitutes), joint ventures prohibited, subcontractors permitted

B. Limited to residential projects under \$150,000, trade exam required, joint ventures permitted, subcontractors prohibited

C. Limited to residential projects under \$100,000, no trade exam required, joint ventures prohibited, subcontractors prohibited

D. Limited to residential projects under \$125,000, trade exam required, joint ventures permitted, subcontractors permitted

17. A contractor enters into a unit-price contract to install 2,200 linear feet of underground fiber optic conduit at \$48 per linear foot. During installation, the telecommunications engineer reduces the quantity to 1,800 linear feet due to a revised route. What is the financial outcome?

A. The contractor receives payment for the full 2,200 linear feet because the contract quantity is guaranteed

B. The owner pays for the 1,800 linear feet actually installed at \$48 per foot, totaling \$86,400, because the owner bears the quantity risk in a unit-price contract

C. The contractor and owner split the \$19,200 savings from the quantity reduction equally

D. The contractor receives payment for 1,800 feet plus a 20% cancellation fee on the uninstalled 400 feet

18. A contractor has a net worth of \$325,000 and working capital of \$288,000. The contractor applies for an unlimited license. Does the contractor qualify?

A. Yes, because the net worth exceeds \$300,000 and that is the only requirement for unlimited

B. Yes, because the average of the two values exceeds \$300,000, meeting the combined threshold

C. No, because unlimited requires both values to exceed \$350,000 for all license classifications

D. No, because both net worth and working capital must each independently exceed \$300,000, and the working capital of \$288,000 falls short

19. A contractor wants to hire an HVAC subcontractor for a \$24,800 scope of work on a commercial office building. The general contractor holds a valid BC-B license. Does the HVAC subcontractor need a separate license?

A. Yes, because all HVAC work on commercial buildings requires a separate license regardless of value

B. No, because the \$24,800 scope falls below the \$25,000 threshold — the BC classification excludes HVAC work exceeding \$25,000, but this scope does not exceed it

C. No, because the general contractor's BC-B license covers all mechanical subcontractor work

D. Yes, because HVAC subcontractors must be licensed for any work exceeding \$10,000 in Tennessee

20. A contractor purchases \$35,000 in plumbing fixtures for a commercial restaurant renovation. The combined state and local sales tax rate is 9.75%. The restaurant owner holds a valid resale certificate for the restaurant supply business. Can the contractor use the owner's resale certificate to avoid paying sales tax?

- A. Yes, because materials installed in a commercial business qualify for the owner's resale exemption
- B. Yes, if the contractor provides the supply house with a copy of the resale certificate and a signed affidavit
- C. No, because the contractor is the end user of construction materials in Tennessee and must pay the combined 9.75% sales tax of \$3,412.50 at purchase regardless of the owner's certificates
- D. No, but the contractor can apply for a quarterly tax refund after the project is completed

21. A contractor enters into a guaranteed maximum price (GMP) contract for \$1,200,000 on a boutique hotel renovation. The contract includes a 50/50 shared savings clause. Actual costs total \$1,140,000. How are the savings distributed?

- A. The contractor receives the entire \$60,000 as an efficiency bonus for completing under the GMP
- B. The owner receives \$30,000 and the contractor receives \$30,000, splitting the \$60,000 savings equally under the 50/50 clause
- C. The owner receives the full \$60,000 because the GMP ceiling exists solely for the owner's benefit
- D. The savings are deposited into a shared escrow until all punch list items and warranty claims are resolved

22. A contractor operating as a general partnership earns gross receipts of \$1,400,000 and net earnings of \$165,000. The partnership's net worth is \$210,000 and tangible property is valued at \$180,000. The contractor's tax preparer says the partnership owes franchise tax, excise tax, and business tax. Is the preparer 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 \$1,000,000 owe all three taxes
- C. No, because general partnerships are exempt from all Tennessee state-level business taxes
- D. Yes, because all partnerships with tangible property in Tennessee owe franchise tax

23. A contractor enters into a cost-plus-fixed-fee contract with a \$40,000 fixed fee for a \$480,000 estimated commercial office fit-out. The owner cancels several planned upgrades, and actual costs come in at \$430,000. What fee does the contractor receive?

- A. \$35,833, reduced proportionally because actual costs decreased from the original estimate
- B. \$43,000, recalculated at 10% of actual costs because the fee adjusts when costs change significantly
- C. \$40,000, because a fixed fee remains constant regardless of whether actual costs are higher or lower than the estimate
- D. \$40,000 minus a \$5,000 credit for the reduced scope of work that lowered the contractor's management burden

24. A contractor is reviewing bid documents for a state university dormitory project. The documents require a performance bond and a payment bond. The contractor's estimator asks about the surety bond parties. Which statement correctly identifies the three parties?

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

25. An employer with 52 employees at a single Nashville location has a worker employed for 14 months who requests 12 weeks of unpaid FMLA leave to care for a newborn child. Is the worker eligible?

- A. No, because FMLA leave for newborn care is limited to 6 weeks rather than the standard 12 weeks
- B. Yes, because the employer has 50+ employees within a 75-mile radius, the worker has more than 12 months of service, and newborn care is a qualifying FMLA event
- C. No, because the employee must have worked at least 24 months to qualify for FMLA birth-related leave
- D. Yes, but only if the worker is the birth mother — fathers and adoptive parents are not eligible for newborn FMLA

26. A contractor is building a commercial office. A scaffold platform stands 10 feet above the ground. The scaffold has a 4.5:1 safety factor and is supervised by a competent person.

However, the scaffold was designed by the project foreman, who has 15 years of general construction experience but no specific scaffold design training. Does this scaffold meet OSHA requirements?

- A. Yes, because the 4.5:1 safety factor exceeds the minimum 4:1 requirement and a competent person is supervising
- B. Yes, because 15 years of experience qualifies the foreman as both a competent person and a qualified person
- C. No, because scaffolds above 10 feet require a licensed professional engineer to design them
- D. No, because OSHA requires a qualified person with specific scaffold design knowledge and training to design the scaffold — the foreman's general experience does not satisfy this requirement

27. A contractor operating as an LLC has gross receipts of \$1,950,000. The company paid \$1,350,000 to properly licensed subcontractors and \$180,000 to an unlicensed painting crew. What amount is deductible from gross receipts for Tennessee business tax?

- A. \$1,350,000, because only payments to properly licensed subcontractors qualify for the deduction
- B. \$1,530,000, because all payments to subcontractors and crews are deductible regardless of licensing
- C. \$0, because Tennessee does not permit deductions from gross receipts for business tax calculation
- D. \$675,000, because the deduction is capped at 50% of total subcontractor and crew payments

28. A contractor's employee suffers a fatal electrocution on a commercial jobsite at 10:00 AM on Monday. The site superintendent calls the contractor's main office at 10:25 AM. By what time must the employer report this fatality to OSHA?

- A. By 10:25 AM on Tuesday, which is within 24 hours of the employer learning about the fatality
- B. By 10:00 AM on Tuesday, which is within 24 hours of the actual time the fatality occurred
- C. By 10:25 AM the following Monday, which is within 5 working days of the employer's knowledge
- D. By 6:25 PM on Monday, which is within 8 hours of the employer learning about the fatality

29. A material supplier delivers \$82,000 in structural lumber to a private residential subdivision project. The supplier's contract is exclusively with the general contractor — no contract exists with the property owner. The general contractor has not paid. What must the supplier do to preserve mechanic's lien rights?

- A. File a mechanic's lien directly within 90 days of the last delivery — no prior notice is required for suppliers
- B. 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
- C. Send a demand letter to the general contractor by certified mail within 30 days of each unpaid invoice
- D. File a breach of contract lawsuit against the general contractor within one year to create an automatic lien

30. A contractor operating as a sole proprietorship has gross receipts of \$890,000 and net earnings of \$112,000. The contractor's tax advisor says the business owes Tennessee franchise and excise tax. Is the advisor correct?

- A. No, because sole proprietorships are exempt from both franchise and excise tax — only business tax on gross receipts applies in Tennessee
- B. Yes, because all business entities with gross receipts exceeding \$500,000 owe franchise and excise tax
- C. No, because sole proprietorships are exempt from all Tennessee state-level business taxes
- D. Yes, because all businesses with net earnings exceeding \$100,000 owe excise tax regardless of structure

31. A contractor wants to determine whether a bathroom remodel project requires a Tennessee contractor license. The project includes: tile and fixtures \$10,800, plumbing materials \$3,600, labor \$8,400, demolition \$1,200, and profit \$1,500. Does the project require a license?

- A. Yes, because the total cost is \$25,500 (all materials + labor + demolition + profit), exceeding the \$25,000 threshold
- B. No, because the labor cost of \$8,400 is under \$25,000 and the threshold applies only to the labor portion
- C. No, because bathroom remodels are classified as maintenance work exempt from contractor licensing
- D. Yes, because any project involving plumbing work automatically requires a contractor license regardless of cost

32. A roofing subcontractor wants to bid on a \$48,000 re-roofing project for a commercial warehouse. The subcontractor does not hold a Tennessee contractor license. The general contractor says roofing subcontractors need licensing only for projects over \$75,000. Is this correct?

- A. Yes, because the \$75,000 threshold applies to all specialty subcontractor licensing in Tennessee
- 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 exempt from licensing

33. A contractor has total assets of \$720,000, total liabilities of \$445,000, current assets of \$280,000, and current liabilities of \$148,000. 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 \$275,000 supports a limit of \$2,750,000 based on the standard formula
- B. Yes, because total assets of \$720,000 support any project under \$1,500,000
- C. No, because the Board requires a minimum current ratio of 2.0 for projects exceeding \$1,000,000
- D. No, because the monetary limit is ten times the lesser of net worth (\$275,000) or working capital (\$132,000) — the limit is \$1,320,000, which falls below \$1,400,000

34. A contractor is reviewing the contract documents for a \$2,800,000 commercial project. The specifications require acoustic ceiling tiles rated NRC 0.70 throughout the office areas. The pre-bid addenda changed the requirement to NRC 0.55 tiles in the open office areas only. The drawings show NRC 0.85 tiles for all office areas. Which acoustic tile rating should be installed in the open office areas?

- A. NRC 0.70, because specifications always take precedence over both addenda and drawings
- B. NRC 0.55, because addenda modify all previously issued documents and represent the most current design intent
- C. The contractor may choose any rating and document the decision in the submittal log
- D. NRC 0.85, because the drawings provide the most detailed room-by-room performance requirements

35. A contractor enters into a \$950,000 stipulated-sum contract for a medical clinic. After completing 60% of the work, the owner terminates the contractor for convenience. The contractor has incurred \$513,000 in costs and earned \$57,000 in profit on completed work. The contractor claims \$76,000 in anticipated profit on the unperformed 40%. What does the contractor receive?

- A. \$950,000, the full contract price, because the owner terminated without contractor fault
- B. \$646,000, consisting of costs plus earned profit plus anticipated profit on unperformed work
- C. \$513,000, consisting of only the direct costs with no profit on any portion
- D. \$570,000, consisting of costs (\$513,000) plus profit earned on the completed portion (\$57,000), with no recovery of anticipated profit on unperformed work

36. A contractor with 58 employees is hiring new workers for a large project. The HR director requires I-9 forms for all new hires but has not enrolled in E-Verify. The director says E-Verify is mandatory only for government contractors. Is this correct?

- A. Yes, because E-Verify is a voluntary program for private-sector employers in Tennessee
- B. Yes, because E-Verify is required only for companies holding federal or state government contracts
- C. No, because E-Verify is required for all Tennessee employers regardless of employee count
- D. No, because Tennessee requires E-Verify for all employers with 50 or more employees, and with 58 employees both I-9 and E-Verify are required

37. A contractor enters into a time-and-materials contract for emergency storm damage repair on a retail building. After three weeks, costs have reached \$285,000. The building owner demands the contractor stop work until a cost cap can be agreed upon. What is the fundamental issue with this contract type?

- A. The contractor has breached the contract by exceeding a reasonable cost without owner approval
- B. T&M contracts have no cost ceiling, placing the highest cost risk on the owner — any cost cap would require a written contract modification agreed to by both parties
- C. The owner can unilaterally impose a stop-work order and cost cap at any time during a T&M contract
- D. T&M contracts include an implied cost ceiling equal to 200% of the initial verbal estimate

38. A contractor operating as an S-corporation has net earnings of \$245,000, net worth of \$340,000, and tangible property valued at \$280,000. What is the company's Tennessee franchise tax liability?

- A. \$700, calculated at \$0.25 per \$100 of tangible property because franchise tax uses the lesser value
- B. \$100, the minimum franchise tax for all Tennessee S-corporations regardless of financial position
- C. \$850, calculated at \$0.25 per \$100 of net worth of \$340,000 because it is the greater value
- D. \$0, because S-corporations are exempt from franchise tax as pass-through entities

39. A contractor enters into a \$620,000 lump-sum contract to build a small animal hospital. During excavation, the contractor encounters a large abandoned concrete cistern that requires \$32,000 to remove. The contract does not contain a differing site conditions clause. Who bears the removal cost?

- A. The owner bears the cost because abandoned structures are pre-existing conditions and always the owner's responsibility
- B. The cost is shared equally between owner and contractor under the implied risk-sharing principle
- C. 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
- D. The contractor can suspend all work until the owner agrees to fund the removal as a separate contract

40. A contractor's qualifying agent is permanently disabled in a construction accident on September 10. The contractor's office administrator reports the departure to the Board on September 22 and begins searching for a replacement. Was the report timely, and what is the replacement deadline?

- A. The report was timely because the 30-day window expires October 10, and the replacement is due within 120 days
- B. The report was late because departures must be reported within 5 business days of September 10
- C. The report was timely because the 15-day reporting period expires September 25
- D. The report was timely because the 10-day window gives the contractor until September 20 — wait, September 10 + 10 = September 20, and the report on September 22 is 2 days late, with replacement due within 90 days by December 9

41. A masonry subcontractor is bidding on a \$115,000 scope of masonry work for a commercial retail center. The subcontractor does not hold an LMC license. Does the subcontractor need one?

- A. Yes, because the LMC license is required when masonry subcontractor work reaches \$100,000 or more, and \$115,000 exceeds this threshold
- B. No, because the LMC threshold is \$125,000 for commercial construction projects
- C. Yes, because all masonry subcontractors must hold an LMC license regardless of contract value
- D. No, because the general contractor's license covers all masonry subcontractor work on the project

42. A contractor holds a Tennessee license with a monetary limit of \$1,350,000. The contractor carries \$500,000 in general liability insurance. Does the contractor meet the minimum GL requirement?

- A. Yes, because the \$1,350,000 monetary limit falls in the \$501,000–\$1,500,000 tier, which requires \$500,000 minimum GL
- B. No, because the minimum GL for limits above \$1,000,000 is \$750,000
- C. No, because all contractors with limits above \$1,000,000 must carry \$1,000,000 minimum GL
- D. Yes, because GL requirements are based on individual project values, not the monetary limit

43. 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 signed the contract while under the influence of a controlled substance and later claims to have no memory of signing. What element is potentially at issue?

- A. Consideration, because intoxication invalidates any financial commitment made by the signing party
- B. Offer, because an offer accepted by an intoxicated person is automatically void under Tennessee law
- C. Legal purpose, because contracts signed under the influence of substances are illegal in Tennessee
- D. Legal capacity — a person who is substantially impaired by a controlled substance at the time of signing may lack the legal ability to enter a binding contract

44. An employer with 22 employees wants to implement Tennessee's Drug-Free Workplace Program for the 5% workers' compensation premium credit. The HR manager drafts a policy including pre-employment testing, post-accident testing, and random testing but omits reasonable suspicion testing. Does this program qualify?

- A. Yes, because three of four components meet the minimum program requirements for the premium credit
- B. Yes, because reasonable suspicion testing is an optional enhancement that increases the credit to 7.5%
- C. No, because all four components are required: pre-employment, reasonable suspicion, post-accident, and random — omitting any one disqualifies the program
- D. No, because the program must also include annual screening of all employees in addition to the three listed

45. A contractor is reviewing the standard order of precedence for a \$1,800,000 commercial construction contract. The agreement specifies a 12-month completion timeline. The general

conditions specify 15 months. The supplementary conditions specify 13 months. Which timeline controls?

- A. 15 months, because the general conditions provide the most conservative and protective timeline
- B. 13 months, because the supplementary conditions represent the most recently negotiated terms
- C. 12 months, because the agreement holds the highest position in the standard order of precedence
- D. The contractor may select whichever timeline is most favorable and document the choice

46. A contractor wants to hire a plumbing subcontractor for a \$26,000 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. No, because the general contractor's BC-B license covers all plumbing work on the project
- B. No, because plumbing subcontractor licensing is required only for scopes exceeding \$50,000
- C. Yes, because all plumbing work on commercial buildings requires a separate license regardless of value
- D. Yes, because the BC classification excludes plumbing work exceeding \$25,000, and the \$26,000 scope exceeds that threshold

47. A contractor signs a conditional lien waiver in exchange for a \$38,000 progress payment. The owner issues a check, which the contractor deposits. Five business days later, the bank notifies the contractor that the check cleared successfully. What is the status of the conditional waiver?

- A. The conditional waiver remains conditional for 30 days after deposit regardless of whether the check clears
- B. The conditional waiver is now effective because the condition — actual receipt of payment — has been satisfied
- C. The conditional waiver converts to an unconditional waiver only if the contractor signs a separate confirmation
- D. The conditional waiver is effective only after 90 days of the check remaining cleared without reversal

48. A contractor completes all work on a private commercial renovation on January 8. The project owner withholds \$47,000 in retainage. The contractor files a mechanic's lien on April 5, which is 87 days after the last day of furnishing. Is the filing timely, and what is the enforcement deadline?

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

49. A contractor has total assets of \$580,000, total liabilities of \$340,000, current assets of \$225,000, and current liabilities of \$97,000. The contractor wants to bid on a \$1,300,000 project. Can the monetary limit support this bid?

- A. Yes, because the net worth of \$240,000 supports a limit of \$2,400,000 based on the standard formula
- B. Yes, because total assets of \$580,000 are sufficient to support any project under \$1,500,000
- C. No, because the monetary limit is ten times the lesser of net worth (\$240,000) or working capital (\$128,000) — the limit is \$1,280,000, which falls below \$1,300,000
- D. No, because the Board requires a minimum net worth of \$150,000 per \$1,000,000 of contract value

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

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

#### Practice Exam 22: Answer Key and Explanations

1. C. Monetary limit and unlimited — Net worth =  $\$1,240,000 - \$825,000 = \$415,000$ . Working capital =  $\$475,000 - \$135,000 = \$340,000$ . Limit =  $10 \times \text{lesser } (\$340,000) = \$3,400,000$ . Both exceed \$300,000, qualifying for unlimited.

2. A. Excise tax —  $6.5\% \times \$280,000 = \$18,200$ . The question asks specifically about excise tax. Options B and D describe franchise tax calculations.

3. B. Unconditional waiver — Effective immediately upon signing regardless of payment. The subcontractor has released lien rights even though the check never cleared due to the frozen account.

4. A. Cost-plus-percentage disincentive —  $11\% \times \$28,000 = \$3,080$  in lost fee income. The percentage structure creates a financial disincentive to recommend cost savings.
5. D. Public property liens — Mechanic's liens cannot be filed against public property including fire stations. Remedy is a payment bond claim.
6. B. Disability discrimination — ADA applies at 15+ employees, THRA at 8+ employees. With 16 employees, both laws apply.
7. A. GL tiers — \$470,000 falls in up-to-\$500,000 tier requiring \$100,000 minimum GL. The policy meets the requirement.
8. B. Change order procedure — Should be written and signed before work begins. Lack of documentation weakens enforcement.
9. A. Self-employment tax —  $15.3\% \times \$142,000 = \$21,726$ . Quarterly payments: April 15, June 15, September 15, January 15.
10. C. Lien enforcement — Lawsuit must be filed within one year of filing date. Filed July 22, 2025, deadline is July 22, 2026.
11. C. Corporate taxes — Franchise = \$0.25 per \$100 of greater value (\$410,000 net worth) = \$1,025. Excise =  $6.5\% \times \$290,000 = \$18,850$ . Combined = \$19,875.
12. A. Financial statements — Limits exceeding \$3,000,000 require an audited statement. At \$3,800,000, the reviewed statement is insufficient.
13. C. Percentage of completion — Revenue =  $(\$880,000 \div \$1,760,000) \times \$2,200,000 = 0.50 \times \$2,200,000 = \$1,100,000$ .
14. A. NC reciprocity and NASCLA — NC is a reciprocity state (trade exam waiver). NASCLA accepted for BC-B. Business and Law exam always required.
15. D. Excavation protection — OSHA requires protection at 5+ feet unless in stable rock. Soil appearance does not override the regulation.
16. A. BC-A/r — \$125,000 limit, no trade exam (community college course), joint ventures prohibited, subcontractors permitted.
17. B. Unit-price quantity risk — Owner bears quantity risk. Pays for 1,800 feet  $\times$  \$48 = \$86,400.
18. D. Unlimited license — Both values must each exceed \$300,000. Working capital (\$288,000) falls short.
19. B. HVAC licensing — BC excludes HVAC exceeding \$25,000. At \$24,800, the scope falls below the threshold. No separate license needed.

20. C. Sales tax — Contractor is end user.  $\$35,000 \times 9.75\% = \$3,412.50$ . Owner's certificates don't transfer.
21. B. GMP shared savings — \$60,000 savings ( $\$1,200,000 - \$1,140,000$ ) split 50/50: \$30,000 each.
22. A. General partnership taxes — Exempt from franchise and excise tax. Only business tax applies.
23. C. Cost-plus-fixed-fee — \$40,000 fee remains constant regardless of actual costs.
24. C. Bond parties — Principal = contractor, obligee = owner, surety = bonding company.
25. B. FMLA — 50+ employees, 14 months tenure (exceeds 12), newborn care qualifies. All conditions met.
26. D. Scaffold design — OSHA requires a qualified person with specific scaffold design training. General experience is insufficient. The safety factor meets the 4:1 minimum, but the design qualification does not.
27. A. Business tax deduction — Only licensed subcontractor payments ( $\$1,350,000$ ) are deductible.
28. D. Fatality reporting — 8 hours from employer learning. Office learned at 10:25 AM, deadline is 6:25 PM Monday.
29. B. Remote claimant — Supplier must send Notice of Nonpayment within 90 days and file lien within 90 days.
30. A. Sole proprietorship taxes — Exempt from franchise and excise tax. Only business tax applies.
31. A. Licensing threshold — Total =  $\$10,800 + \$3,600 + \$8,400 + \$1,200 + \$1,500 = \$25,500$ . Exceeds \$25,000.
32. B. Roofing licensing — All roofing subcontractors must be licensed since January 1, 2014, regardless of value.
33. D. Monetary limit — Net worth = \$275,000. Working capital =  $\$280,000 - \$148,000 = \$132,000$ . Limit =  $10 \times \$132,000 = \$1,320,000$ . Below \$1,400,000.
34. B- The NRC 0.55 rating specified in the addenda controls for the open office areas, overriding both the original specifications and the drawings.

35. D. Termination for convenience — Costs + earned profit only. No anticipated profit on unperformed work. Total = \$513,000 + \$57,000 = \$570,000.
36. D. E-Verify — Required for Tennessee employers with 50+ employees. Both I-9 and E-Verify required at 58 employees.
37. B. T&M risk — No cost ceiling. Highest risk to owner. Any cap requires written contract modification.
38. C. Franchise tax — \$0.25 per \$100 of greater value (\$340,000 net worth vs. \$280,000 tangible property). Using \$340,000:  $340,000 \div 100 \times \$0.25 = \$850$ .
39. C. Lump-sum risk — Without differing site conditions clause, contractor bears unforeseen costs.
40. D. QA departure — September 10 + 10 days = September 20. Report filed September 22 is 2 days late. Replacement due within 90 days (December 9).
41. A. LMC threshold — Required at \$100,000+. \$115,000 exceeds the threshold.
42. A. GL tiers — \$1,350,000 falls in \$501,000–\$1,500,000 tier requiring \$500,000 minimum. Policy meets requirement.
43. D. Legal capacity — Substantial impairment from controlled substances may negate legal capacity to enter binding contracts.
44. C. Drug-Free Workplace — All four components required. Omitting reasonable suspicion disqualifies the program.
45. C. Order of precedence — Agreement holds highest position. 12-month timeline controls.
46. D. Plumbing licensing — BC excludes plumbing exceeding \$25,000. At \$26,000, separate license required.
47. B. Conditional waiver — Becomes effective when payment is actually received. The check cleared, satisfying the condition.
48. D. Lien timing — Filed 87 days after last furnishing, within 90 days. Timely. Enforcement within one year.
49. C. Monetary limit — Net worth = \$240,000. Working capital =  $\$225,000 - \$97,000 = \$128,000$ . Limit =  $10 \times \$128,000 = \$1,280,000$ . Below \$1,300,000.
50. B. Ohio reciprocity — Ohio is a reciprocity state. Trade exam waived. Business and Law exam always required.