

PRACTICE EXAM 23: 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 wants to understand the preferred accounting method for financial statement preparation. The company's bookkeeper currently uses cash basis accounting. The contractor's bonding agent says this could create problems. Why does the bonding agent have concerns?

- A. Cash basis accounting is prohibited by Tennessee law for all construction companies with revenues over \$500,000
- B. Cash basis accounting inflates net worth, which could lead the Board to assign an artificially high monetary limit
- C. Accrual basis accounting is preferred by GAAP, bonding companies, and the Tennessee Board because it recognizes revenue when earned and expenses when incurred, providing a more accurate financial picture
- D. The bonding agent's concern is unfounded because all accounting methods are equally acceptable to bonding companies

2. A contractor has total assets of \$960,000, total liabilities of \$620,000, current assets of \$355,000, and current liabilities of \$220,000. 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 \$340,000 supports a limit of \$3,400,000 based on the standard calculation
- B. Yes, because total assets of \$960,000 are sufficient to 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 (\$340,000) or working capital (\$135,000) — the limit is \$1,350,000, which falls below \$1,400,000

3. A general contractor on a private residential subdivision project issues a \$48,000 progress payment check to a framing subcontractor. The subcontractor signs a conditional lien waiver and deposits the check. Three business days later, the bank returns the check for insufficient funds. What is the status of the conditional waiver?

- A. The conditional waiver is effective because the contractor demonstrated intent to pay by issuing the check
- 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 deposit regardless of whether the check clears
- D. The conditional waiver converts to an unconditional waiver once the contractor issues a replacement check

4. A Tennessee contractor purchases \$28,000 in concrete mix and rebar for a commercial foundation project. The state sales tax rate is 7% and the local rate is 2.5%. The project is being built for a church with a valid Tennessee sales tax exemption. Can the contractor use the church's exemption?

- A. Yes, because materials permanently installed in tax-exempt buildings inherit the owner's exemption status
- B. Yes, if the contractor provides the concrete supplier with the church's exemption certificate and a signed affidavit
- C. No, because the contractor is the end user of construction materials in Tennessee and must pay the combined 9.5% sales tax of \$2,660 at purchase regardless of the owner's exempt status
- D. No, but the contractor can file a quarterly sales tax refund application with the Tennessee Department of Revenue

5. A contractor enters into a cost-plus-percentage contract with a 14% fee for a \$550,000 estimated commercial renovation. The contractor recommends a \$22,000 cost-saving substitution to the owner. What inherent problem does this contract structure create regarding the contractor's financial incentive to recommend savings?

- A. No problem exists because the owner controls all substitution decisions independently of the contractor
- B. The problem is minor because the 14% fee applies only to the original estimate, not actual costs
- C. The contractor loses \$3,080 in fee income by recommending the savings because the percentage fee structure penalizes cost reductions — each dollar saved reduces the contractor's fee by 14 cents
- D. The problem is eliminated when the contractor obtains three competitive bids for the substitute material

6. A contractor operating as a C-corporation has net earnings of \$325,000, a net worth of \$470,000, and tangible property valued at \$510,000 in Tennessee. What is the company's Tennessee franchise tax liability?

- A. \$1,275, calculated at \$0.25 per \$100 of tangible property of \$510,000 because it is the greater of net worth or tangible property
- B. \$1,175, calculated at \$0.25 per \$100 of net worth of \$470,000
- C. \$100, the minimum franchise tax for all Tennessee corporations regardless of financial size
- D. \$0, because C-corporations with tangible property under \$1,000,000 are exempt from franchise tax

7. An employer with 8 employees in Tennessee terminates a 58-year-old worker and replaces the position with a 29-year-old hire. The terminated worker believes the decision was age-based. Under which law can the worker file a complaint?

- A. The Tennessee Human Rights Act, which applies to employers with 8 or more employees and covers age discrimination
- B. The federal ADEA, which applies to all employers with 5 or more employees in the construction industry
- C. Title VII of the Civil Rights Act, which covers age discrimination for employers with 8 or more employees
- D. No federal or state law covers age discrimination claims for an employer with only 8 employees

8. A contractor enters into a \$1,450,000 stipulated-sum contract for a commercial office building. After completing 55% of the work, the owner terminates the contractor for convenience. The contractor has incurred \$717,750 in costs and earned \$79,750 in profit on the completed portion. The contractor also claims \$65,250 in anticipated profit on the unperformed 45%. What does the contractor receive?

- A. \$1,450,000, the full contract price, because the owner terminated without contractor fault
- B. \$862,750, consisting of costs plus earned profit plus anticipated profit on the unperformed work
- C. \$717,750, consisting of only the direct costs with no profit recovery on any portion of the contract
- D. \$797,500, consisting of costs (\$717,750) plus profit earned on the completed portion (\$79,750), with no recovery of anticipated profit on unperformed work

9. A contractor is excavating a storm drainage trench that reaches 5 feet 3 inches deep in soil classified as Type C. The excavation superintendent tells the crew to continue working because "Type C soil at this depth holds together fine." Is the superintendent's direction compliant with OSHA?

- A. Yes, because a competent person's field assessment can override OSHA soil classification standards
- B. Yes, because Type C soil requires protection only at depths exceeding 8 feet under Tennessee-specific rules
- C. No, because Type C soil requires protective systems at all depths regardless of the 5-foot threshold
- D. 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

10. A contractor files a mechanic's lien on a private commercial property on October 15, 2025. The contractor and property owner enter into mediation in May 2026. The mediation process extends past September 2026. What is the enforcement deadline?

- A. October 15, 2026, which is one year from the filing date — mediation does not toll or extend this statutory deadline
- B. April 15, 2026, which is 6 months from the date the lien was filed
- C. October 15, 2027, which is two years from the filing date because mediation extends the period
- D. January 13, 2026, which is 90 days from the date the lien was filed

11. A contractor operating as a general partnership has two partners and 6 employees. The partnership has gross receipts of \$1,100,000 and net earnings of \$140,000. The contractor's accountant says the partnership owes franchise and excise tax in addition to business tax. Is the accountant correct?

- A. Yes, because all business entities with gross receipts exceeding \$1,000,000 owe all three taxes
- B. Yes, because all partnerships with employees owe franchise and excise tax regardless of structure
- C. No, because general partnerships are exempt from franchise and excise tax — only business tax on gross receipts applies in Tennessee
- D. No, because general partnerships are exempt from all Tennessee state-level business taxes

12. A contractor wants to obtain a Tennessee license with a monetary limit of \$4,200,000. The contractor currently has a reviewed financial statement. What type of financial statement is required?

- A. A reviewed statement is sufficient because the audit threshold applies only at limits above \$5,000,000

- B. A compiled statement prepared by any CPA is acceptable for limits between \$3,000,000 and \$5,000,000
- C. No change is needed because reviewed statements are acceptable for all monetary limit levels
- D. An audited financial statement is required because monetary limits exceeding \$3,000,000 must be supported by an audit

13. A contractor enters into a unit-price contract to install 3,500 linear feet of underground irrigation pipe at \$32 per linear foot. During installation, the landscape architect increases the quantity to 4,100 linear feet due to a revised planting plan. Who bears the financial cost of the additional 600 linear feet?

- A. The contractor bears the additional cost because unit-price contracts include an implied quantity guarantee
- B. The owner bears the quantity risk and must pay for the additional 600 linear feet at \$32 per foot, totaling \$19,200
- C. The cost is split equally between owner and contractor under the standard shared-risk provision
- D. The owner pays for the additional pipe but at a reduced unit price reflecting the economy of the larger volume

14. A contractor operating as a sole proprietorship earns \$168,000 in net self-employment income. What is the approximate self-employment tax liability and payment schedule?

- A. Approximately \$25,704 at 15.3%, with estimated payments due April 15, June 15, September 15, and January 15
- B. Approximately \$12,852 at 7.65% because sole proprietors pay only the employee half of FICA taxes
- C. Approximately \$4,872 at 2.9% for the Medicare portion only, paid in a single annual installment
- D. Approximately \$20,832 at 12.4% for Social Security only, paid in semi-annual installments

15. A contractor has a net worth of \$295,000 and working capital of \$330,000. The contractor applies for an unlimited license classification. Does the contractor qualify?

- A. Yes, because the working capital of \$330,000 exceeds \$300,000 and only one value needs to exceed the threshold
- B. Yes, because the average of \$295,000 and \$330,000 exceeds \$300,000, satisfying the combined requirement

- C. No, because unlimited status requires a minimum net worth of \$500,000 regardless of working capital
- D. No, because both net worth and working capital must each independently exceed \$300,000, and the net worth of \$295,000 falls short

16. A contractor holds a Tennessee license with a monetary limit of \$2,300,000. 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 rather than the monetary limit
- C. No, because all contractors with limits above \$2,000,000 must carry GL equal to the full monetary limit
- D. No, because the \$2,300,000 monetary limit exceeds \$1,501,000, placing the contractor in the highest tier that requires \$1,000,000 minimum GL

17. A contractor wants to hire an HVAC subcontractor for a \$24,500 scope of work on a residential project. The general contractor holds a valid BC-B license. Does the HVAC subcontractor need a separate license?

- A. Yes, because all HVAC work on residential projects requires a separate license regardless of value
- B. Yes, because HVAC subcontractors must be licensed for any work exceeding \$10,000 in Tennessee
- C. No, because the \$24,500 scope falls below the \$25,000 threshold — the BC classification excludes HVAC work exceeding \$25,000, and this scope does not exceed it
- D. No, because the general contractor's BC-B license covers all mechanical subcontractor work

18. A contractor is building a medical office using the percentage-of-completion method. Contract price is \$1,600,000, costs incurred to date are \$576,000, and total estimated costs are \$1,280,000. What revenue should the contractor recognize?

- A. \$576,000, matching revenue directly to costs incurred without applying any completion ratio
- B. \$720,000, calculated as costs to date (\$576,000) divided by total estimated costs (\$1,280,000) multiplied by the contract price (\$1,600,000)
- C. \$800,000, calculated as 50% of the contract price because the project is approximately halfway complete
- D. \$1,600,000, because revenue is fully recognized once the project surpasses 40% completion

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

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

20. A roofing subcontractor wants to bid on a \$56,000 re-roofing project for a residential apartment complex. The subcontractor does not hold a Tennessee contractor license. The general contractor says roofing subcontractors only need licensing for projects over \$75,000. Is this correct?

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

21. A contractor enters into a cost-plus-fixed-fee contract with a \$58,000 fixed fee for a \$700,000 estimated commercial renovation. During construction, owner-directed upgrades increase actual costs to \$825,000. What fee does the contractor receive?

- A. \$68,143, adjusted proportionally based on the ratio of actual costs to the original estimate
- B. \$82,500, recalculated at 10% of actual costs because the fee converts when costs exceed 110% of the estimate
- C. \$58,000 plus a separate change order fee of \$12,500 for the additional \$125,000 in work
- D. \$58,000, because a fixed fee remains constant regardless of whether actual costs increase or decrease

22. A contractor operating as a limited partnership has gross receipts of \$2,100,000, net earnings of \$265,000, net worth of \$350,000, and tangible property valued at \$300,000. What Tennessee taxes apply?

- A. Business tax only, because limited partnerships are exempt from franchise and excise tax
- B. Franchise and excise tax only, because limited partnerships are exempt from business tax
- C. Business tax on gross receipts, franchise tax based on the greater of net worth or tangible property, and excise tax at 6.5% on net earnings — all three apply to limited partnerships
- D. No Tennessee taxes apply because limited partnerships are pass-through entities exempt from all state taxes

23. A masonry subcontractor is bidding on a \$96,000 scope of masonry work for a new elementary school. The subcontractor does not hold an LMC license. Does the subcontractor need one?

- A. Yes, because all masonry subcontractors must hold an LMC license regardless of contract value
- B. No, because the LMC license is required only when masonry work reaches \$100,000 or more, and \$96,000 falls below that threshold
- C. Yes, because masonry work on public school projects requires licensing at \$75,000 or more
- D. No, because the general contractor's license covers all masonry subcontractor work on educational facilities

24. A contractor's qualifying agent submits a formal resignation effective March 1. The contractor reports the departure to the Board on March 9. Was the report filed timely, and what is the replacement deadline?

- A. Yes, the report was timely because the 10-day window runs through March 11, and the replacement must be designated within 90 days by May 30
- B. No, because departures must be reported within 5 business days, making the deadline March 8
- C. Yes, because the 30-day reporting period gives the contractor until March 31
- D. No, because the report was due within 10 days by March 11, but the replacement period is only 60 days

25. A contractor wants to determine whether a covered patio construction project requires a Tennessee contractor license. The project includes: materials \$11,200, labor \$10,100, concrete slab \$2,400, and profit \$1,800. Does this project require a license?

- A. No, because covered patios are classified as accessory structures exempt from contractor licensing
- B. No, because the labor cost of \$10,100 is under \$25,000 and the threshold applies only to labor
- C. Yes, because the total project cost is \$25,500 (materials + labor + concrete + profit), exceeding the \$25,000 threshold
- D. Yes, because all projects involving concrete work automatically require a contractor license

26. A contractor operating as an S-corporation has net earnings of \$205,000, net worth of \$285,000, and tangible property valued at \$250,000. The company's CFO says S-corporations are exempt from Tennessee franchise and excise tax because they are pass-through entities. Is the CFO correct?

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

27. A contractor is building a commercial parking garage. A scaffold platform stands 12 feet above ground level. The scaffold has a safety factor of 3.8:1. The scaffold was designed by the project foreman, who has 18 years of general construction experience. According to OSHA, does this scaffold meet requirements?

- A. Yes, because the 3.8:1 safety factor exceeds the minimum 3:1 requirement for commercial construction
- B. Yes, because 18 years of experience qualifies the foreman as both a competent and qualified person
- C. No, because scaffolds above 10 feet require a licensed professional engineer for design approval
- D. No, because the safety factor must be at least 4:1 and the scaffold must be designed by a qualified person with specific scaffold design knowledge — both requirements are unmet

28. A contractor enters into a \$540,000 lump-sum contract for a restaurant renovation. During demolition, hidden water damage is discovered behind the bar area, requiring \$35,000 in structural repair. The contract contains no differing site conditions clause. Who bears the repair cost?

- A. The owner bears the cost because hidden water damage is a pre-existing condition and always the owner's responsibility
- B. 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
- C. The cost is split equally between the owner and contractor under the standard risk-sharing principle
- D. The contractor can file a mechanic's lien specifically for the \$35,000 repair without prior notification

29. An employer with 55 employees at a single Knoxville location has a worker employed for 14 months who requests FMLA leave to care for a spouse with a serious health condition. Is the worker eligible?

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

30. A contractor holds a Tennessee license with a monetary limit of \$1,450,000. The contractor carries \$500,000 in general liability insurance. Does the contractor meet the minimum GL requirement?

- A. No, because the minimum GL for limits above \$1,000,000 is \$750,000
- B. No, because all contractors with limits above \$1,000,000 must carry \$1,000,000 minimum GL
- C. Yes, because the \$1,450,000 monetary limit falls in the \$501,000–\$1,500,000 tier, which requires \$500,000 minimum GL
- D. Yes, because GL requirements are based on individual project values rather than the monetary limit

31. A material supplier delivers \$55,000 in custom countertops to a private residential project. The supplier's contract is exclusively with the general contractor. The general contractor has not paid. What must the supplier do to preserve mechanic's lien rights as a remote claimant?

- 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 by certified mail to the general contractor within 30 days of the last delivery
- D. File a breach of contract lawsuit against the general contractor within one year to create an automatic lien

32. A contractor with 62 employees is hiring workers for a new commercial 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 voluntary for private-sector employers. Is this correct?

- A. Yes, because E-Verify is a voluntary federal program with no state mandate in Tennessee
- B. Yes, because E-Verify is mandatory only for employers holding government contracts exceeding \$100,000
- C. No, because E-Verify is required for all Tennessee employers regardless of employee count
- D. No, because Tennessee requires E-Verify for employers with 50 or more employees — with 62 employees, both I-9 and E-Verify are required

33. A contractor wants to hire an electrical subcontractor for a \$27,000 scope of work on a commercial building. The general contractor holds a valid BC-B license. Does the electrical subcontractor need a separate license?

- A. No, because the general contractor's BC-B license covers all electrical work on commercial projects
- B. No, because electrical subcontractor licensing is required only for scopes exceeding \$50,000
- C. Yes, because all electrical work on commercial buildings requires a separate license regardless of value
- D. Yes, because the BC classification excludes electrical work exceeding \$25,000, and the \$27,000 scope exceeds that threshold

34. A contractor enters into a guaranteed maximum price (GMP) contract for \$1,800,000 on a conference center renovation. The contract includes a 50/50 shared savings clause. Actual costs total \$1,710,000. How are the savings distributed?

- A. The contractor receives the entire \$90,000 as an efficiency bonus for completing under budget
- B. The owner receives \$45,000 and the contractor receives \$45,000, splitting the \$90,000 equally
- C. The owner receives the full \$90,000 because the GMP ceiling exists solely for the owner's benefit
- D. The savings are deposited into a joint escrow until all warranty claims are resolved

35. A contractor's employee is killed in a scaffold collapse on a commercial construction site at 2:00 PM on Wednesday. The project superintendent calls the contractor's main office at 2:30 PM. By what time must the employer report this fatality to OSHA?

- A. By 2:30 PM on Thursday, which is within 24 hours of the employer learning about the fatality
- B. By 2:00 PM on Thursday, which is within 24 hours of the actual time the fatality occurred
- C. By 10:30 PM on Wednesday, which is within 8 hours of the employer learning about the fatality

D. By 2:30 PM the following Wednesday, which is within 5 working days of the employer's knowledge

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

A. Projects under \$125,000, no trade exam (community college course substitutes), joint ventures prohibited, subcontractors permitted

B. Projects under \$150,000, trade exam required, joint ventures permitted, subcontractors prohibited

C. Projects under \$100,000, no trade exam required, joint ventures prohibited, subcontractors prohibited

D. Projects under \$125,000, trade exam required, joint ventures permitted, subcontractors permitted

37. A contractor operating as a sole proprietorship has gross receipts of \$720,000 and net earnings of \$92,000. The contractor's CPA says the business owes franchise tax and excise tax. Is the CPA 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 \$75,000 owe excise tax regardless of structure

38. A contractor is reviewing the standard order of precedence in a \$2,600,000 commercial construction contract. The specifications require Type I Portland cement for all concrete work. The pre-bid addenda changed the requirement to Type III Portland cement for the foundation pours only. The drawings indicate Type II Portland cement for all concrete. Which cement type should be used for the foundation pours?

A. Type I, because specifications always take precedence over both addenda and drawings

B. Type II, because the drawings provide the most location-specific material requirements

C. Type III, because addenda modify all previously issued documents and represent the most current design intent

D. The contractor may choose any type and document the selection in the project log

39. A contractor has total assets of \$1,180,000, total liabilities of \$770,000, current assets of \$445,000, and current liabilities of \$105,000. Does the contractor qualify for unlimited license status?

- A. Yes, because both net worth (\$410,000) and working capital (\$340,000) each independently exceed the \$300,000 threshold required for unlimited status
- B. No, because the working capital of \$340,000 does not meet the \$400,000 minimum for unlimited
- C. Yes, because the net worth alone exceeding \$300,000 satisfies the sole requirement for unlimited
- D. No, because unlimited status requires both values to exceed \$500,000

40. A contractor enters into a \$760,000 lump-sum contract for a commercial tenant improvement. The owner verbally approves a \$19,000 upgrade to the conference room AV system. The contractor installs the upgrade immediately. Two weeks later, the owner disputes the charge. What is the core issue?

- A. The verbal approval is enforceable because the owner accepted the benefit of the completed work
- B. The change order should have been written and signed by both parties before the work began — the lack of documentation weakens the contractor's position
- C. The architect must authorize all change orders before the owner or contractor can approve them
- D. The owner cannot dispute work that has been physically completed and integrated into the building

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

- A. Both exams are fully waived because the NASCLA credential provides complete reciprocity
- B. 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
- C. The NASCLA credential waives the Business and Law exam, but the trade exam must be taken
- D. No reciprocity exists with South Carolina, requiring both exams independently

42. A contractor operating as an LLC has gross receipts of \$1,650,000. The company paid \$1,100,000 to properly licensed subcontractors and \$200,000 to an unlicensed drywall crew. What amount is deductible from gross receipts for Tennessee business tax?

- A. \$1,100,000, because only payments to properly licensed subcontractors qualify for the deduction

- B. \$1,300,000, because all payments to subcontractors and labor crews are deductible regardless of licensing
- C. \$0, because Tennessee does not permit deductions from gross receipts for business tax calculation
- D. \$550,000, because the deduction is capped at 50% of total subcontractor payments

43. A contractor is reviewing the five essential elements of a valid construction contract. The contractor has a written offer, acceptance, consideration, and legal capacity. The project involves building an unlicensed gambling facility in Tennessee, where commercial gambling is illegal. What element is missing?

- A. Legal capacity, because the parties cannot enter contracts for prohibited commercial activities
- B. Consideration, because illegal activities cannot be supported by valid financial consideration
- C. Offer, because offers to perform illegal work are void and unenforceable under Tennessee law
- D. Legal purpose — the contract lacks legal purpose because it involves constructing a facility for an illegal activity

44. An employer with 19 employees wants to know which federal employment discrimination laws apply. Which combination is correct?

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

45. A contractor holds a Tennessee license with a monetary limit of \$490,000. The contractor carries \$100,000 in general liability insurance. Does the contractor meet the minimum GL requirement?

- A. No, because all Tennessee contractors must carry a minimum of \$250,000 in GL coverage
- B. Yes, because the \$490,000 monetary limit falls in the up-to-\$500,000 tier, which requires \$100,000 minimum GL
- C. No, because the GL minimum is 25% of the monetary limit, requiring \$122,500
- D. Yes, because GL requirements are based on individual project values rather than the monetary limit

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

47. An employer with 28 employees wants to implement Tennessee's Drug-Free Workplace Program for the 5% workers' compensation premium credit. The employer's policy includes pre-employment, reasonable suspicion, and post-accident testing but omits random testing. Does this program qualify?

- A. Yes, because three of four components satisfy the minimum program requirement for the premium credit
- B. Yes, because random testing is an optional component that increases the credit to 7.5% when included
- C. No, because all four components are required — pre-employment, reasonable suspicion, post-accident, and random testing — and omitting any one disqualifies the program
- D. No, because the program must also include annual screening of all current employees

48. A contractor completes all work on a private commercial warehouse renovation on February 12. The project owner withholds \$38,000 in retainage. The contractor files a mechanic's lien on May 10, which is 87 days after the last day of furnishing. Is the filing timely, and what is the enforcement deadline?

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

49. A roofing subcontractor wants to perform a \$38,000 re-roofing project on a residential home. The subcontractor does not hold a Tennessee contractor license. Can the subcontractor perform this work?

- A. Yes, because residential roofing projects under \$50,000 are exempt from subcontractor licensing
- 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 residential projects
- D. No, but only because the project exceeds \$25,000 — roofing work under \$25,000 is license-exempt

50. A contractor enters into a time-and-materials contract for emergency fire damage restoration on a commercial building. The building owner asks the contractor to explain the fundamental risk allocation. Which statement is most accurate?

- A. The contractor bears the highest cost risk because the hourly rates are fixed at contract execution
- B. Risk is equally shared because the owner controls scope while the contractor controls pricing
- C. The contractor bears all risk because T&M contracts include an implied guaranteed maximum price
- D. The owner bears the highest cost risk because T&M contracts have no cost ceiling and the contractor is reimbursed for actual time and materials without a cap on total expenditure

Practice Exam 23: Answer Key and Explanations

1. C. Accounting method — Accrual basis is preferred by GAAP, bonding companies, and the Board. It recognizes revenue when earned and expenses when incurred, providing a more accurate financial picture than cash basis.
2. D. Monetary limit — Net worth = \$340,000. Working capital = \$355,000 – \$220,000 = \$135,000. Limit = 10 × lesser (\$135,000) = \$1,350,000. Below \$1,400,000.
3. B. Conditional waiver — Becomes effective only when payment is actually received. A bounced check means payment was never received. The waiver is not effective.
4. C. Sales tax — Contractor is end user. $\$28,000 \times 9.5\% = \$2,660$. Owner's exemption does not transfer.
5. C. Cost-plus-percentage — $14\% \times \$22,000 = \$3,080$ in lost fee. The percentage structure penalizes cost reductions.
6. A. Franchise tax — \$0.25 per \$100 of greater value (\$510,000 tangible property vs. \$470,000 net worth). $\$510,000 \div 100 \times \$0.25 = \$1,275$.

7. A. Age discrimination — ADEA requires 20+ employees (doesn't apply at 8). THRA applies at 8+ employees and covers age discrimination.
8. D. Termination for convenience — Costs + earned profit. No anticipated profit on unperformed work. Total = $\$717,750 + \$79,750 = \$797,500$.
9. D. Excavation protection — OSHA requires protection at 5+ feet unless in stable rock. Type C is not stable rock.
10. A. Lien enforcement — One year from filing date. October 15, 2026. Mediation does not toll the deadline.
11. C. General partnership taxes — Exempt from franchise and excise tax. Only business tax applies.
12. D. Financial statements — Limits exceeding \$3,000,000 require an audited statement.
13. B. Unit-price quantity risk — Owner bears quantity risk. $600 \times \$32 = \$19,200$ additional.
14. A. Self-employment tax — $15.3\% \times \$168,000 = \$25,704$. Quarterly: April 15, June 15, September 15, January 15.
15. D. Unlimited license — Both must each exceed \$300,000. Net worth (\$295,000) falls short.
16. D. GL tiers — \$2,300,000 exceeds \$1,501,000. Highest tier requires \$1,000,000 minimum. \$750,000 insufficient.
17. C. HVAC licensing — BC excludes HVAC exceeding \$25,000. At \$24,500, below threshold. No separate license.
18. B. Percentage of completion — Revenue = $(\$576,000 \div \$1,280,000) \times \$1,600,000 = 0.45 \times \$1,600,000 = \$720,000$.
19. D. Alabama reciprocity — Trade exam waived. Business and Law exam always required.
20. C. Roofing licensing — All roofing subcontractors licensed since January 1, 2014. No value exception.
21. D. Cost-plus-fixed-fee — \$58,000 fee constant regardless of costs.
22. C. Limited partnership taxes — All three apply: business tax, franchise tax, excise tax.
23. B. LMC threshold — Required at \$100,000+. \$96,000 below threshold. No LMC needed.
24. A. QA departure — March 1 + 10 days = March 11. Report on March 9 is timely. Replacement within 90 days = May 30.

25. C. Licensing threshold — Total = \$11,200 + \$10,100 + \$2,400 + \$1,800 = \$25,500. Exceeds \$25,000.
26. A. S-corporation taxes — Subject to both franchise and excise tax despite pass-through status.
27. D. Scaffold — 4:1 minimum safety factor (3.8:1 fails). Qualified person required for design (foreman's general experience insufficient). Both requirements unmet.
28. B. Lump-sum risk — Without differing site conditions clause, contractor bears unforeseen costs.
29. B. FMLA — 50+ employees, 14 months tenure, spousal care qualifies. All conditions met.
30. C. GL tiers — \$1,450,000 in \$501,000–\$1,500,000 tier requiring \$500,000. Policy meets requirement.
31. A. Remote claimant — Notice of Nonpayment within 90 days, then file lien within 90 days.
32. D. E-Verify — Required for 50+ employees in Tennessee. Both I-9 and E-Verify required.
33. D. Electrical licensing — BC excludes electrical exceeding \$25,000. \$27,000 exceeds threshold.
34. B. GMP shared savings — \$90,000 savings split 50/50: \$45,000 each.
35. C. Fatality reporting — 8 hours from employer learning. 2:30 PM + 8 hours = 10:30 PM Wednesday.
36. A. BC-A/r — \$125,000 limit, no trade exam (community college course), joint ventures prohibited, subcontractors permitted.
37. A. Sole proprietorship taxes — Exempt from franchise and excise tax. Only business tax applies.
38. C. Addenda — Modify previously issued documents. Type III in addenda controls for foundation pours.
39. A. Unlimited license — Net worth = \$410,000, working capital = \$340,000. Both exceed \$300,000. Qualifies.
40. B. Change order — Should be written and signed before work. Lack of documentation weakens position.
41. B. SC reciprocity and NASCLA — Trade exam waived, NASCLA for BC-B. Business and Law exam required.

42. A. Business tax deduction — Only licensed subcontractor payments (\$1,100,000) deductible.
43. D. Legal purpose — Constructing a facility for illegal gambling lacks legal purpose. Contract is void.
44. A. Discrimination thresholds — Title VII at 15+, ADA at 15+: both apply. ADEA at 20+: does not apply at 19.
45. B. GL tiers — \$490,000 in up-to-\$500,000 tier requiring \$100,000. Policy meets requirement.
46. B. Plumbing licensing — BC excludes plumbing exceeding \$25,000. \$26,500 exceeds threshold.
47. C. Drug-Free Workplace — All four components required. Omitting random testing disqualifies.
48. A. Lien timing — Filed 87 days after last furnishing, within 90 days. Enforcement within one year.
49. B. Roofing licensing — Licensed since January 1, 2014, regardless of value.
50. D. T&M risk — No cost ceiling. Highest risk to owner. Contractor reimbursed without cap.