

PRACTICE EXAM 24: TENNESSEE BUSINESS AND LAW SIMULATION (50 QUESTIONS)

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

1. A contractor operating as a limited partnership has gross receipts of \$2,700,000, net earnings of \$330,000, net worth of \$400,000, and tangible property valued at \$370,000 in Tennessee. What is the company's combined franchise and excise tax liability?

- A. \$1,000 in franchise tax only, because limited partnerships are exempt from excise tax as pass-through entities
- B. \$21,450 in excise tax only, because limited partnerships are exempt from franchise tax in Tennessee
- C. \$22,450, consisting of \$1,000 in franchise tax based on net worth of \$400,000 plus \$21,450 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

2. A contractor's employee suffers a severe laceration resulting in the loss of a finger on a commercial construction site at 9:30 AM on Tuesday. The site foreman reports the injury to the company's safety office at 10:00 AM. The safety director asks whether this is an 8-hour or 24-hour reporting event. What is the correct OSHA reporting timeframe?

- A. 8 hours, because all workplace injuries on construction sites must be reported within 8 hours
- B. 24 hours from when the injury occurred, meaning the deadline is 9:30 AM on Wednesday
- C. 24 hours from when the employer learned of the amputation, meaning the deadline is 10:00 AM on Wednesday
- D. 5 working days, because finger amputations are classified as non-emergency recordable events

3. A contractor has total assets of \$1,450,000, total liabilities of \$950,000, current assets of \$510,000, and current liabilities of \$178,000. The contractor wants to know the monetary limit and whether unlimited status is achievable. What is the correct analysis?

- A. The limit is \$5,000,000 based on net worth, and unlimited is achievable because net worth exceeds \$400,000
- B. The limit is \$3,320,000 based on ten times the working capital of \$332,000, and the contractor qualifies for unlimited because both net worth (\$500,000) and working capital (\$332,000) each exceed \$300,000
- C. The limit is \$5,000,000 and unlimited is not achievable because working capital must exceed \$400,000
- D. The limit is \$3,320,000 but unlimited is not achievable because both values must exceed \$500,000

4. A contractor operating as a sole proprietorship earns \$182,000 in net self-employment income for the year. The contractor wants to calculate the approximate self-employment tax and quarterly payment schedule. What is correct?

- A. Approximately \$27,846 at 15.3%, with estimated payments due April 15, June 15, September 15, and January 15
- B. Approximately \$13,923 at 7.65% because sole proprietors pay only the employee half of FICA
- C. Approximately \$5,278 at 2.9% for the Medicare portion only, paid in a single annual installment
- D. Approximately \$22,568 at 12.4% for Social Security only, paid in semi-annual installments

5. A contractor enters into a \$920,000 lump-sum contract for a commercial restaurant build-out. During demolition, the contractor discovers extensive termite damage behind load-bearing walls, requiring \$62,000 in structural repair and replacement. The contract does not contain a differing site conditions clause. Who bears the repair cost?

- A. The owner bears the cost because pest damage is a pre-existing property defect and always the owner's responsibility
- B. The cost is split equally between the owner and contractor under the implied shared-risk doctrine
- C. The contractor can file a mechanic's lien specifically for the \$62,000 without providing notice to the owner
- 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

6. A contractor is reviewing the standard order of precedence for a \$3,400,000 commercial construction contract. The specifications require Class 5 vapor barrier on all below-grade walls. The pre-bid addenda changed the requirement to Class 3 vapor barrier for the utility room walls

only. The drawings show Class 1 vapor barrier for all below-grade walls. Which vapor barrier class should be installed on the utility room walls?

- A. Class 5, because specifications always take precedence over both addenda and drawings
- B. Class 1, because the drawings provide the most detailed location-specific material requirements
- C. Class 3, because addenda modify all previously issued documents and represent the most current design intent
- D. The contractor may select any class and document the decision in the submittal log

7. A contractor enters into a cost-plus-percentage contract with a 13% fee for a \$480,000 estimated veterinary clinic renovation. The owner requests an upgrade to the surgical suite flooring that adds \$18,000 to the project cost. The contractor enthusiastically recommends the upgrade. What structural problem does this contract type create?

- A. No problem exists because the owner initiated and approved the upgrade independently
- B. The problem is minor because the fee percentage is locked at the original estimate amount
- C. The contractor has a financial incentive to encourage upgrades because 13% of the \$18,000 increase generates \$2,340 in additional fee income
- D. The problem is eliminated because the owner must obtain competitive bids for all upgrades

8. A subcontractor furnishes labor and materials to a federally funded Veterans Affairs hospital construction project in Tennessee. The general contractor has not paid the subcontractor for \$145,000 in completed work. The subcontractor wants to file a mechanic's lien against the hospital. Is this a viable remedy?

- A. Yes, because federal construction projects in Tennessee are subject to state mechanic's lien laws
- B. Yes, but the lien must be filed within 30 days rather than the standard 90 days for federal facilities
- C. No, and no alternative remedy exists because federal facilities have absolute sovereign immunity
- D. No, because mechanic's liens cannot be filed against public property — the subcontractor must pursue a claim against the payment bond required under the Miller Act

9. An employer with 9 employees in Tennessee terminates a worker who recently disclosed a pregnancy. The worker believes the termination was pregnancy-related. 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 prohibits pregnancy-based discrimination
- B. Title VII and the Pregnancy Discrimination Act, which apply to employers with 15 or more employees
- C. The ADEA, which covers pregnancy discrimination for employers with 10 or more employees
- D. No federal or state discrimination law covers pregnancy claims for employers with only 9 employees

10. A contractor files a mechanic's lien on a private residential property on November 8, 2025. The contractor enters negotiations with the homeowner in June 2026. The homeowner's attorney delays settlement discussions until October 2026. What risk does the contractor face?

- A. No risk, because the enforcement deadline is two years from the filing date
- B. The contractor risks losing the lien because the enforcement lawsuit must be filed by November 8, 2026 — one year from the filing date — and negotiations do not toll this deadline
- C. No risk, because settlement negotiations automatically toll the enforcement period
- D. The contractor risks a 50% penalty reduction if the lawsuit is filed more than 6 months after the lien

11. A contractor operating as a general partnership earns gross receipts of \$1,350,000 and net earnings of \$175,000. The partnership has a net worth of \$240,000 and tangible property valued at \$200,000. The contractor's tax advisor says the partnership owes franchise tax, excise tax, and business tax. Is the advisor 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 employees owe franchise and excise tax regardless of structure

12. A contractor holds a Tennessee license with a monetary limit of \$1,600,000. The contractor carries \$500,000 in general liability insurance. Does the contractor meet the minimum GL requirement?

- A. Yes, because \$500,000 meets the \$501,000–\$1,500,000 tier requirement
- B. Yes, because GL requirements are based on individual project values rather than the monetary limit
- C. No, because the \$1,600,000 monetary limit exceeds \$1,501,000, placing the contractor in the highest tier that requires \$1,000,000 minimum GL coverage

D. No, because all contractors with monetary limits above \$1,000,000 must carry GL equal to 75% of the limit

13. A contractor wants to hire a plumbing subcontractor for a \$28,500 scope of work on a commercial office 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 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 \$28,500 scope exceeds that threshold

14. A contractor enters into a cost-plus-fixed-fee contract with a \$65,000 fixed fee for a \$780,000 estimated commercial renovation. The owner cancels several planned upgrades, reducing actual costs to \$690,000. What fee does the contractor receive?

A. \$65,000, because a fixed fee remains constant regardless of whether actual costs are higher or lower than the estimate

B. \$57,436, proportionally reduced because actual costs decreased from the original estimate

C. \$69,000, recalculated at 10% of actual costs because the fee adjusts with significant cost changes

D. \$65,000 minus a \$9,000 credit for the reduced scope of work and management burden

15. A contractor wants to apply for a BC-A/r restricted residential license classification. The contractor's colleague says the classification allows projects up to \$125,000 and requires passing a trade exam. How many of these two claims are correct?

A. Both are correct because BC-A/r requires a trade exam and limits projects to \$125,000

B. Neither is correct because the BC-A/r has a \$100,000 limit and no trade exam requirement

C. One is correct — the \$125,000 limit — because BC-A/r does not require a trade exam (a community college course substitutes for the trade exam requirement)

D. One is correct — the trade exam requirement — because the project limit is actually \$150,000

16. A contractor purchases \$52,000 in commercial kitchen equipment for a restaurant construction project. The combined state and local sales tax rate is 9.75%. The restaurant owner holds a valid Tennessee resale certificate. Can the contractor avoid paying sales tax by using the owner's certificate?

- A. Yes, because materials installed in commercial businesses qualify for the owner's resale exemption
- B. Yes, if the contractor provides the equipment supplier with a copy of the owner's certificate
- C. No, because the contractor is the end user of construction materials in Tennessee and must pay the combined 9.75% sales tax of \$5,070 at purchase regardless of the owner's certificates
- D. No, but the contractor can apply for a quarterly sales tax refund from the Tennessee Department of Revenue

17. A roofing subcontractor wants to bid on a \$44,000 re-roofing project for a commercial warehouse. The subcontractor does not hold a Tennessee contractor license. Can the subcontractor perform this work?

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

18. A contractor is building a commercial office using the percentage-of-completion method. Contract price is \$2,400,000, costs incurred to date are \$840,000, and total estimated costs are \$1,920,000. What revenue should the contractor recognize?

- A. \$1,050,000, calculated as costs to date (\$840,000) divided by total estimated costs (\$1,920,000) multiplied by the contract price (\$2,400,000)
- B. \$840,000, matching revenue directly to costs incurred without applying a completion ratio
- C. \$1,200,000, calculated as 50% of the contract price because the project is approximately half complete
- D. \$2,400,000, because revenue is fully recognized once a project surpasses 35% completion

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

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

20. An employer with 52 employees at a single Nashville location has a worker employed for 10 months who requests 12 weeks of FMLA leave for a personal serious health condition. Is the worker eligible?

- A. Yes, because the employer has 50+ employees and a serious health condition is a qualifying event
- B. No, because FMLA requires the employee to have worked for the employer for at least 12 months, and this worker has only 10 months of service
- C. Yes, because the 12-month employment requirement is waived for workers with documented serious conditions
- D. No, because FMLA leave for personal health conditions is limited to 6 weeks maximum

21. A contractor enters into a \$1,300,000 stipulated-sum contract for a commercial warehouse. After completing 50% of the work, the owner terminates for convenience. The contractor has incurred \$585,000 in costs and earned \$65,000 in profit on the completed portion. The contractor also claims \$65,000 in anticipated profit on the unperformed 50%. What does the contractor receive?

- A. \$1,300,000, the full contract price, because the owner terminated without contractor fault
- B. \$715,000, consisting of costs plus earned profit plus anticipated profit on the unperformed work
- C. \$585,000, consisting of only the direct costs with no profit recovery on any portion of the work
- D. \$650,000, consisting of costs (\$585,000) plus profit earned on the completed portion (\$65,000), with no recovery of anticipated profit on unperformed work

22. A contractor has a net worth of \$315,000 and working capital of \$290,000. The contractor applies for an unlimited license classification. Does the contractor qualify?

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

- B. No, because both net worth and working capital must each independently exceed \$300,000, and the working capital of \$290,000 falls short of the threshold
- C. Yes, because the average of the two values exceeds \$300,000
- D. No, because unlimited status requires a minimum net worth of \$500,000 regardless of working capital

23. A contractor operating as an LLC has gross receipts of \$2,050,000. The company paid \$1,400,000 to properly licensed subcontractors and \$175,000 to an unlicensed landscaping crew during the year. What amount is deductible from gross receipts for Tennessee business tax purposes?

- A. \$1,575,000, because all payments to subcontractors and crews are deductible regardless of licensing
- B. \$1,400,000, because only payments to properly licensed subcontractors qualify for the deduction
- C. \$0, because Tennessee does not permit any deductions from gross receipts for business tax purposes
- D. \$700,000, because the deduction is capped at 50% of total subcontractor and crew payments

24. A construction crew is excavating a sanitary sewer trench that reaches 5 feet 6 inches deep in soil classified as Type A. The excavation foreman says no protective system is needed because "Type A is the most stable soil classification." Is the foreman correct?

- A. Yes, because Type A soil allows unprotected excavation to 8 feet with competent person approval
- B. Yes, because a competent person's field assessment overrides the standard OSHA depth threshold
- C. No, because Type A 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 classification, unless the excavation is entirely in stable rock — Type A soil is not stable rock

25. A contractor's employee is killed in an electrical accident on a commercial jobsite at 11:00 AM on Thursday. The site superintendent calls the contractor's main office at 11:20 AM. By what time must the employer report this fatality to OSHA?

- A. By 11:20 AM on Friday, which is within 24 hours of the employer learning about the fatality
- B. By 11:00 AM on Friday, which is within 24 hours of the actual time the fatality occurred
- C. By 11:20 AM the following Thursday, which is within 5 working days of the employer's knowledge

D. By 7:20 PM on Thursday, which is within 8 hours of the employer learning about the fatality

26. A contractor enters into a guaranteed maximum price (GMP) contract for \$2,200,000 on a conference center renovation. The contract includes a 60/40 shared savings clause with 60% to the owner. Actual costs total \$2,060,000. How are the savings distributed?

A. The contractor receives the entire \$140,000 as an efficiency bonus for completing under the GMP ceiling

B. The owner receives \$84,000 (60%) and the contractor receives \$56,000 (40%) of the \$140,000 savings

C. The owner receives the full \$140,000 because the GMP ceiling exists solely for the owner's benefit

D. The savings are held in joint escrow until all warranty obligations expire

27. A contractor operating as a C-corporation has net earnings of \$355,000, net worth of \$490,000, and tangible property valued at \$540,000 in Tennessee. What is the franchise tax liability?

A. \$1,225, calculated at \$0.25 per \$100 of net worth because franchise tax always uses net worth

B. \$100, the minimum franchise tax for Tennessee corporations regardless of financial position

C. \$1,350, calculated at \$0.25 per \$100 of tangible property of \$540,000 because it is the greater value

D. \$2,575, calculated at \$0.25 per \$100 of the combined net worth and tangible property

28. A contractor wants to obtain 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 when the limit exceeds \$4,000,000

C. No, because all monetary limits exceeding \$2,500,000 require an audited financial statement

D. No, because monetary limits exceeding \$3,000,000 require an audited financial statement

29. A material supplier delivers \$78,000 in custom architectural metalwork to a private commercial project. The supplier has no direct contract with the building owner — the contract is solely with the general contractor. The general contractor has not paid. What must the supplier do to preserve mechanic's lien rights?

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

30. An employer with 7 employees in Tennessee terminates a 52-year-old worker and replaces the position with a 28-year-old hire. The terminated worker believes the decision was age-based. Under which law can the worker file a discrimination complaint?

- A. No federal or state discrimination law covers age claims for an employer with only 7 employees — the ADEA requires 20+ and the THRA requires 8+ employees
- B. The federal ADEA, which applies to all employers with 5 or more employees
- C. Title VII of the Civil Rights Act, which covers age discrimination for employers with 7+ employees
- D. The Tennessee Human Rights Act, which applies to employers with 5 or more employees

31. A contractor signs an unconditional lien waiver and delivers it to the project owner. The corresponding \$56,000 progress payment has not yet been issued. One month later, the owner tells the contractor the payment will be delayed by 90 days due to financing issues. What is the status of the unconditional waiver?

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

32. A contractor is reviewing the five essential elements of a valid construction contract. The contractor has a written offer, acceptance, consideration, and legal purpose. The contractor's license expired 60 days before the contract was signed, and the contractor has not renewed it. What contract element is at issue?

- A. Consideration, because an unlicensed contractor cannot provide valid consideration
- B. Offer, because an unlicensed contractor cannot make a valid offer under Tennessee law

- C. Legal capacity — performing construction work without a valid license may render the contract unenforceable and exposes the contractor to penalties
- D. Legal purpose, because all contracts with unlicensed contractors are illegal under Tennessee law

33. A contractor wants to determine whether a carport construction project requires a Tennessee contractor license. The project includes: materials \$12,400, labor \$9,800, concrete footings \$1,600, and profit \$1,700. Does this project require a license?

- A. No, because carports are classified as accessory structures exempt from contractor licensing requirements
- B. Yes, because the total project cost is \$25,500 (materials + labor + footings + profit), exceeding the \$25,000 threshold
- C. No, because the labor portion of \$9,800 is under \$25,000 and the threshold applies only to labor costs
- D. Yes, because all projects involving concrete footings require a contractor license regardless of total cost

34. A contractor operating as an S-corporation has net earnings of \$270,000, net worth of \$350,000, and tangible property valued at \$320,000. The company's bookkeeper says S-corporations are exempt from Tennessee franchise and excise tax because they are pass-through entities. Is the bookkeeper correct?

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

35. 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. Yes, because the \$490,000 monetary limit falls in the up-to-\$500,000 tier, which requires \$100,000 minimum 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 \$122,500 for this contractor
- D. Yes, because GL requirements are based on individual project values rather than the monetary limit

36. A contractor's qualifying agent submits a resignation letter effective February 10. The contractor reports the departure to the Board on February 19. Was the report filed timely, and what is the replacement deadline?

- A. Yes, the report was timely because the 10-day reporting window gives the contractor until February 20, and the replacement must be designated within 90 days by May 11
- B. No, because departures must be reported within 5 business days, making the deadline February 17
- C. Yes, because the 30-day reporting period gives the contractor until March 12
- D. No, because the report was due within 10 days by February 20, but the replacement period is only 60 days

37. A contractor enters into a time-and-materials contract for emergency tornado damage repair on a commercial building. Two weeks into the project, the owner is alarmed that costs have reached \$190,000 with additional work still needed. The owner wants to cap costs at \$250,000. What is the fundamental issue?

- A. The contractor can agree to the cap as an informal verbal modification effective immediately
- B. T&M contracts include an implied cost ceiling equal to 150% of the first week's billing that automatically limits exposure
- C. The owner should have negotiated a GMP before work began, because T&M contracts cannot be modified
- D. T&M contracts have no inherent cost ceiling — any cost cap requires a written contract modification agreed to by both parties

38. A contractor with 54 employees is hiring workers for a new project. The HR director requires I-9 forms for all new hires but has not enrolled in E-Verify. The director believes E-Verify is voluntary for private-sector construction companies. Is this correct?

- A. No, because Tennessee requires E-Verify for employers with 50 or more employees — with 54 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 companies holding federal government contracts

39. A contractor enters into a \$570,000 lump-sum contract for a dental clinic. During construction, the owner verbally approves a \$15,000 upgrade to the reception area millwork. The contractor completes the upgrade immediately. Three weeks later, the owner disputes the \$15,000 charge. What is the core procedural issue?

- A. The verbal approval is enforceable because the owner accepted the benefit of the completed upgrade
- 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 ability to recover the cost
- 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

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

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

41. A contractor is building a commercial parking structure. A scaffold platform stands 14 feet above ground level. The scaffold has a 4.2:1 safety factor and is supervised by a competent person. The scaffold was designed by the site superintendent, who has 22 years of general construction experience but no specific scaffold design training. Does this scaffold fully meet OSHA requirements?

- A. Yes, because the 4.2:1 safety factor exceeds the 4:1 minimum and a competent person is supervising
- B. Yes, because 22 years of experience qualifies the superintendent as both a competent and qualified person
- C. No, because scaffolds above 10 feet require a licensed professional engineer for design certification
- D. No, because OSHA requires a qualified person with specific scaffold design knowledge and training to design the scaffold — the superintendent's general experience alone does not qualify

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

- A. Yes, because all HVAC work on commercial buildings 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 trades

43. A contractor is building a medical clinic using the percentage-of-completion method. Contract price is \$1,500,000, costs incurred to date are \$600,000, and total estimated costs are \$1,200,000. What revenue should be recognized?

A. \$600,000, matching revenue to costs incurred without applying a completion percentage

B. \$750,000, calculated as costs to date (\$600,000) divided by total estimated costs (\$1,200,000) multiplied by the contract price (\$1,500,000)

C. \$1,500,000, because revenue is fully recognized once a project surpasses the 40% milestone

D. \$800,000, calculated as 50% of the contract price plus a 5% completion bonus

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

A. Both exams are fully waived because Ohio has comprehensive reciprocity with Tennessee

B. No reciprocity exists between Tennessee and Ohio, requiring both exams independently

C. The Business and Law exam is waived through reciprocity, but the trade exam must be taken

D. The trade exam may be waived through reciprocity with Ohio, but the Tennessee Business and Law exam must still be passed

45. A masonry subcontractor is bidding on a \$104,000 scope of masonry work for a new commercial retail building. The subcontractor does not hold an LMC license. Does the subcontractor need one?

A. No, because the LMC threshold is \$125,000 for commercial construction projects in Tennessee

B. Yes, because the LMC license is required when masonry subcontractor work reaches \$100,000 or more, and \$104,000 exceeds that threshold

C. No, because the general contractor's license covers all masonry subcontractor work on the project

D. Yes, because all masonry subcontractors must hold an LMC license regardless of contract value

46. A contractor completes all work on a private commercial renovation on March 18. The project owner withholds \$44,000 in retainage. The contractor files a mechanic's lien on June

12, which is 86 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. Yes, but the enforcement lawsuit must be filed within 90 days of the lien filing date
- C. No, because the 90-day filing period begins from the date the retainage was contractually due
- 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

47. A contractor operating as a sole proprietorship has gross receipts of \$680,000. The contractor pays \$460,000 to properly licensed subcontractors during the year. What is the deductible amount for Tennessee business tax purposes?

- A. \$0, because Tennessee does not allow deductions from gross receipts for sole proprietorship business tax
- B. \$460,000, because payments to properly licensed subcontractors are deductible from gross receipts
- C. \$340,000, because the deduction is capped at 50% of total gross receipts for sole proprietorships
- D. \$680,000, because sole proprietorships are fully exempt from Tennessee business tax

48. A project owner terminates a contractor for cause on a \$1,800,000 commercial project after the contractor fails to correct repeated quality defects despite three written cure notices. The contractor completed 40% of the work. A replacement contractor charges \$1,250,000 to complete the remaining 60%. The original remaining contract balance was \$1,080,000. What does the original contractor receive?

- A. The value of acceptably completed work, reduced by the \$170,000 difference between the replacement contractor's cost (\$1,250,000) and the remaining contract balance (\$1,080,000)
- B. \$720,000, representing 40% of the contract price for all completed work regardless of quality
- C. The value of all completed work with no offset for the replacement contractor's higher cost
- D. Nothing, because termination for cause permanently forfeits all rights to compensation

49. A contractor enters into a \$640,000 lump-sum contract for a veterinary clinic build-out. During excavation, the contractor encounters an abandoned underground fuel tank requiring \$28,000 in removal and soil remediation. The contract does not contain a differing site conditions clause. Who bears the cost?

- A. The contractor bears the cost because in a lump-sum contract without a differing site conditions clause, the contractor assumes the risk of unforeseen subsurface conditions
- B. The owner bears the cost because underground fuel tanks are environmental liabilities that always belong to the property owner
- C. The cost is split equally between the owner and contractor under the implied shared-risk doctrine
- D. The contractor can suspend work until the owner agrees to fund removal as a separate contract

50. A contractor operating as an LLC has total assets of \$710,000, total liabilities of \$420,000, current assets of \$275,000, and current liabilities of \$140,000. What is the contractor's monetary limit?

- A. \$2,900,000, based on ten times the net worth of \$290,000
- B. \$1,350,000, based on ten times the working capital because working capital exceeds net worth
- C. \$1,350,000, based on ten times the lesser of net worth (\$290,000) or working capital (\$135,000) — working capital is \$135,000, yielding \$1,350,000
- D. \$2,100,000, based on ten times the current assets minus current liabilities

Practice Exam 24: Answer Key and Explanations

1. C. Limited partnership taxes — Franchise tax = \$0.25 per \$100 of greater value (\$400,000 net worth vs. \$370,000 tangible). Using \$400,000: $400,000 \div 100 \times \$0.25 = \$1,000$. Excise tax = $6.5\% \times \$330,000 = \$21,450$. Combined = \$22,450.

2. C. OSHA reporting — Amputations require reporting within 24 hours of the employer learning. Safety office learned at 10:00 AM Tuesday, deadline is 10:00 AM Wednesday. Only fatalities have the 8-hour window.

3. B. Monetary limit and unlimited — Net worth = \$500,000. Working capital = \$332,000. Limit = $10 \times \text{lesser} (\$332,000) = \$3,320,000$. Both exceed \$300,000, qualifying for unlimited.

4. A. Self-employment tax — $15.3\% \times \$182,000 = \$27,846$. Quarterly: April 15, June 15, September 15, January 15.

5. D. Lump-sum risk — Without differing site conditions clause, contractor bears unforeseen costs.

6. C. Addenda — Modify previously issued documents. Class 3 in the addenda controls for utility room walls.

7. C. Cost-plus-percentage — $13\% \times \$18,000 = \$2,340$ additional fee. Structural incentive to encourage upgrades.

8. D. Public property liens — Liens cannot be filed against federal property. Remedy is the payment bond under the Miller Act.
9. A. Pregnancy discrimination — Title VII/PDA requires 15+ (doesn't apply at 9). THRA applies at 8+ and covers pregnancy discrimination.
10. B. Lien enforcement — One year from filing. November 8, 2026. Negotiations do not toll.
11. A. General partnership taxes — Exempt from franchise and excise tax. Only business tax applies.
12. C. GL tiers — \$1,600,000 exceeds \$1,501,000. Highest tier requires \$1,000,000 minimum. \$500,000 insufficient.
13. D. Plumbing licensing — BC excludes plumbing exceeding \$25,000. \$28,500 exceeds threshold.
14. A. Cost-plus-fixed-fee — \$65,000 fee constant regardless of actual costs.
15. C. BC-A/r — \$125,000 limit is correct. No trade exam (community college course substitutes). One of two correct.
16. C. Sales tax — Contractor is end user. $\$52,000 \times 9.75\% = \$5,070$. Owner's certificates don't transfer.
17. B. Roofing licensing — All roofing subcontractors licensed since January 1, 2014. No value exception.
18. A. Percentage of completion — Revenue = $(\$840,000 \div \$1,920,000) \times \$2,400,000 = 0.4375 \times \$2,400,000 = \$1,050,000$.
19. D. Mississippi reciprocity — Trade exam waived. Business and Law exam always required.
20. B. FMLA — Requires 12 months of employment. Worker has only 10 months. Not eligible.
21. D. Termination for convenience — Costs + earned profit. No anticipated profit. Total = $\$585,000 + \$65,000 = \$650,000$.
22. B. Unlimited license — Both must each exceed \$300,000. Working capital (\$290,000) falls short.
23. B. Business tax deduction — Only licensed subcontractor payments (\$1,400,000) deductible.

24. D. Excavation protection — OSHA requires protection at 5+ feet unless stable rock. Type A is not stable rock.
25. D. Fatality reporting — 8 hours from employer learning. 11:20 AM + 8 = 7:20 PM Thursday.
26. B. GMP shared savings — \$140,000 savings split 60/40: owner \$84,000, contractor \$56,000.
27. C. Franchise tax — \$0.25 per \$100 of greater value (\$540,000 tangible property). $\$540,000 \div 100 \times \$0.25 = \$1,350$.
28. D. Financial statements — Limits exceeding \$3,000,000 require audited statement.
29. C. Remote claimant — Notice of Nonpayment within 90 days, file lien within 90 days.
30. A. Age discrimination — ADEA requires 20+ and THRA requires 8+. At 7 employees, neither applies.
31. A. Unconditional waiver — Effective immediately upon signing regardless of payment.
32. C. Legal capacity — Expired license may negate legal capacity and render contract unenforceable.
33. B. Licensing threshold — Total = $\$12,400 + \$9,800 + \$1,600 + \$1,700 = \$25,500$. Exceeds \$25,000.
34. B. S-corporation taxes — Subject to both franchise and excise tax despite pass-through status.
35. A. GL tiers — \$490,000 in up-to-\$500,000 tier. \$100,000 minimum. Policy meets requirement.
36. A. QA departure — Feb 10 + 10 days = Feb 20. Report on Feb 19 is timely. Replacement within 90 days = May 11.
37. D. T&M contracts — No inherent cost ceiling. Any cap requires written modification by both parties.
38. A. E-Verify — Required for 50+ employees in Tennessee. Both I-9 and E-Verify required at 54.
39. B. Change order — Should be written and signed before work. Lack of documentation weakens position.
40. C. Drug-Free Workplace — All four components required for the 5% premium credit.

41. D. Scaffold design — Safety factor meets 4:1 minimum. But a qualified person with specific scaffold design training must design it. General experience insufficient.
42. C. HVAC licensing — BC excludes HVAC exceeding \$25,000. \$24,500 below threshold. No separate license.
43. B. Percentage of completion — Revenue = $(\$600,000 \div \$1,200,000) \times \$1,500,000 = 0.50 \times \$1,500,000 = \$750,000$.
44. D. Ohio reciprocity — Trade exam waived. Business and Law exam always required.
45. B. LMC threshold — Required at \$100,000+. \$104,000 exceeds threshold.
46. D. Lien timing — Filed 86 days after last furnishing, within 90 days. Timely. Enforcement within one year.
47. B. Business tax deduction — Licensed subcontractor payments (\$460,000) deductible.
48. A. Termination for cause — Contractor receives value of acceptable work, offset by \$170,000 additional completion cost.
49. A. Lump-sum risk — Without differing site conditions clause, contractor bears unforeseen costs.
50. C. Monetary limit — Net worth = \$290,000. Working capital = $\$275,000 - \$140,000 = \$135,000$. Limit = $10 \times \text{lesser } (\$135,000) = \$1,350,000$.