

# PRACTICE EXAM 25: 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 operating as a C-corporation has net earnings of \$395,000, net worth of \$520,000, and tangible property valued at \$480,000 in Tennessee. What is the company's Tennessee excise tax liability?

- A. \$1,300, calculated at \$0.25 per \$100 of the net worth of \$520,000
- B. \$1,200, calculated at \$0.25 per \$100 of tangible property of \$480,000
- C. \$0, because C-corporations with net earnings under \$400,000 are exempt from excise tax
- D. \$25,675, calculated at 6.5% of the net earnings of \$395,000

2. A contractor files a mechanic's lien on a private commercial property on April 22, 2026. The contractor's attorney schedules a settlement conference with the property owner for February 2027. The contractor asks whether the timing creates any risk. What should the attorney advise?

- A. No risk exists because settlement conferences automatically toll the enforcement deadline
- B. The contractor must file an enforcement lawsuit by April 22, 2027 — one year from the filing date — and settlement negotiations do not toll or extend this statutory deadline
- C. No risk exists because commercial liens have a two-year enforcement window from the filing date
- D. The contractor must file an enforcement lawsuit within 90 days of the lien filing date

3. A contractor has total assets of \$870,000, total liabilities of \$555,000, current assets of \$320,000, and current liabilities of \$187,000. 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 \$315,000 supports a limit of \$3,150,000 based on the standard calculation
- B. Yes, because total assets of \$870,000 support any project under \$2,000,000
- C. No, because the Board requires a minimum current ratio of 2.0 for projects above \$1,000,000
- D. No, because the monetary limit is ten times the lesser of net worth (\$315,000) or working capital (\$133,000) — the limit is \$1,330,000, which falls below \$1,400,000

4. A contractor operating as a general partnership has two partners and 4 employees. The partnership has gross receipts of \$580,000 and net earnings of \$78,000. The contractor's bookkeeper says the partnership owes Tennessee excise tax at 6.5% on the net earnings. Is the bookkeeper correct?

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

B. Yes, because all business entities with employees owe excise tax regardless of organizational structure

C. No, because general partnerships owe excise tax only when net earnings exceed \$100,000

D. Yes, because all partnerships with gross receipts exceeding \$500,000 owe excise tax

5. A contractor wants to hire an electrical subcontractor for a \$32,000 scope of work on a new commercial office 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 the BC classification excludes electrical work exceeding \$25,000, and the \$32,000 scope exceeds that threshold

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

6. An employer with 10 employees in Tennessee terminates a 45-year-old worker who recently disclosed a physical disability. Under which laws can the worker file a discrimination claim?

A. Both the federal ADA and the Tennessee Human Rights Act — the ADA applies at 15+ employees (does not apply here), but the THRA applies at 8+ employees and covers disability discrimination

B. Only the federal ADA, which applies to all employers with 10 or more employees

C. Only the ADEA, which covers disability discrimination for employers with 10 or more employees

D. No federal or state law covers disability discrimination for employers with only 10 employees

7. A contractor enters into a cost-plus-fixed-fee contract with a \$52,000 fixed fee for a \$640,000 estimated commercial renovation. Owner-directed design changes increase actual costs to \$745,000. What fee does the contractor receive?

- A. \$52,000, because a fixed fee remains constant regardless of whether actual costs increase or decrease from the estimate
- B. \$60,581, adjusted proportionally based on the ratio of actual costs to the estimated amount
- C. \$74,500, recalculated at 10% of actual costs because the fee converts when costs exceed the estimate
- D. \$52,000 plus a separate change order fee of \$10,500 for the additional \$105,000 in work

8. A contractor purchases \$44,000 in HVAC equipment for a commercial restaurant project. The combined state and local sales tax rate is 9.25%. The restaurant owner holds a tax-exempt certificate for the business. Can the contractor use the owner's exemption?

- A. Yes, because materials installed in commercial businesses inherit the owner's exemption status
- B. No, because the contractor is the end user of construction materials in Tennessee and must pay the combined 9.25% sales tax of \$4,070 at purchase regardless of the owner's exempt status
- C. Yes, if the contractor provides the supplier with a copy of the owner's certificate and a signed affidavit
- D. No, but the contractor can file a quarterly refund application with the Tennessee Department of Revenue

9. A contractor is reviewing the five essential elements of a valid construction contract. The contractor has a written offer, acceptance, consideration, and legal purpose. The property owner who signed the contract is a 16-year-old who inherited the property from a grandparent. What contract element is at issue?

- A. Legal capacity — a 16-year-old generally lacks the legal ability to enter into binding contracts, potentially making this contract voidable
- B. Legal purpose — contracts with minors are prohibited under Tennessee construction law
- C. Consideration — minors cannot provide valid consideration for construction contracts
- D. Offer — a minor cannot make or accept a valid offer under Tennessee contract law

10. A contractor enters into a guaranteed maximum price (GMP) contract for \$1,900,000 on a hotel renovation. The contract includes a 40/60 shared savings clause with 40% to the owner and 60% to the contractor. Actual costs total \$1,810,000. How are the savings distributed?

- A. The contractor receives the entire \$90,000 because the 60% majority share effectively gives the contractor full control
- B. The owner receives \$36,000 (40%) and the contractor receives \$54,000 (60%) of the \$90,000 savings

- C. The owner receives the full \$90,000 because GMP contracts exist solely for the owner's financial protection
- D. The savings are deposited in a shared escrow until all warranty obligations have expired

11. A contractor operating as an S-corporation has net earnings of \$235,000, net worth of \$305,000, and tangible property valued at \$270,000 in Tennessee. The company's controller says S-corporations are exempt from franchise and excise tax. Is the controller correct?

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

12. A contractor wants to obtain a Tennessee license with a monetary limit of \$2,900,000. The contractor currently has a reviewed financial statement. Does this meet the Board's requirements?

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

13. A contractor enters into a unit-price contract to install 2,800 linear feet of chain-link fencing at \$34 per linear foot. During construction, the property survey reveals only 2,300 linear feet are needed due to a boundary revision. What is the financial outcome?

- A. The contractor receives payment for the full 2,800 linear feet because the original quantity is guaranteed
- B. The owner pays for the 2,300 linear feet actually installed at \$34 per foot, totaling \$78,200, because the owner bears the quantity risk
- C. The cost difference is split equally between the owner and contractor under the standard risk-sharing provision
- D. The contractor receives payment for 2,300 feet plus a 15% cancellation fee on the uninstalled 500 feet

14. A contractor is building a commercial office building. A scaffold platform stands 11 feet above ground level. The scaffold was designed by a project superintendent with 20 years of construction experience but no formal scaffold design training. The scaffold has a 4.5:1 safety factor and is supervised by a competent person. Does this scaffold meet all OSHA requirements?

- A. Yes, because the 4.5:1 safety factor exceeds the 4:1 minimum and a competent person is supervising
- B. Yes, because 20 years of experience qualifies the superintendent as both a competent and qualified person
- C. No, because OSHA requires a qualified person with specific scaffold design knowledge and training to design the scaffold — the superintendent's general experience is insufficient despite meeting other requirements
- D. No, because scaffolds above 10 feet require a licensed professional engineer for design approval

15. A contractor enters into a \$1,050,000 stipulated-sum contract for a commercial retail space. After completing 45% of the work, the owner terminates for convenience. The contractor has incurred \$425,250 in costs and earned \$47,250 in profit on completed work. The contractor also claims \$57,750 in anticipated profit on the unperformed 55%. What does the contractor receive?

- A. \$1,050,000, the full contract price, because the owner terminated without contractor fault
- B. \$530,250, consisting of costs plus earned profit plus anticipated profit on unperformed work
- C. \$425,250, consisting of only the direct costs incurred with no profit on any portion
- D. \$472,500, consisting of costs (\$425,250) plus profit earned on the completed portion (\$47,250), with no recovery of anticipated profit on unperformed work

16. An employer with 55 employees at a single Chattanooga location has a worker employed for 2 years who requests 12 weeks of 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, 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 3 years to qualify for birth-related FMLA leave
- D. Yes, but only if the worker is the birth mother — fathers are not eligible for newborn FMLA

17. A contractor is excavating a water main trench that reaches 5 feet 4 inches deep in soil classified as Type B. The site superintendent says no protective system is needed because "it's barely over 5 feet and Type B soil is strong enough." Is the superintendent correct?

- A. Yes, because a competent person can authorize unprotected entry for trenches barely over 5 feet
- B. Yes, because Type B soil has sufficient cohesion at shallow depths to work without protection
- C. No, because Type B soil requires protection at all depths regardless of the OSHA threshold
- D. No, because OSHA requires a protective system at 5 feet or deeper regardless of soil type unless entirely in stable rock — there is no "barely over" exception

18. A contractor's employee suffers a fatal trench collapse at 1:45 PM on Wednesday. The site foreman calls the contractor's home office at 2:10 PM. By what time must the employer report the fatality to OSHA?

- A. By 2:10 PM on Thursday, which is within 24 hours of the employer learning about the death
- B. By 1:45 PM on Thursday, which is within 24 hours of the actual time of the fatality
- C. By 2:10 PM the following Wednesday, which is within 5 working days of the employer's knowledge
- D. By 10:10 PM on Wednesday, which is within 8 hours of the employer learning about the fatality

19. A contractor operating as an LLC has gross receipts of \$1,750,000. The company paid \$1,200,000 to properly licensed subcontractors and \$150,000 to an unlicensed painting crew. What amount is deductible from gross receipts for Tennessee business tax?

- A. \$1,350,000, because all payments to subcontractors and crews are deductible regardless of licensing
- B. \$1,200,000, because only payments to properly licensed subcontractors qualify for the deduction
- C. \$0, because Tennessee does not permit deductions from gross receipts for business tax purposes
- D. \$600,000, because the deduction is capped at 50% of total subcontractor and crew payments

20. A masonry subcontractor is bidding on a \$99,000 scope of masonry work for a new commercial building. 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. Yes, because the LMC threshold is \$75,000 for commercial masonry projects in Tennessee
- C. No, because the LMC license is required only when masonry work reaches \$100,000 or more, and \$99,000 falls below that threshold
- D. No, because the general contractor's license covers all masonry subcontractor work on the project

21. A contractor signs a conditional lien waiver in exchange for a \$42,000 progress payment. The owner issues a check. The contractor deposits the check and it clears successfully three business days later. What is the status of the conditional waiver?

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

22. A contractor operating as a sole proprietorship has gross receipts of \$910,000, net earnings of \$115,000, and tangible property valued at \$140,000. The contractor's CPA says the business owes franchise 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 \$100,000 owe excise tax

23. A contractor enters into a \$730,000 lump-sum contract for a dental clinic build-out. During demolition, the contractor discovers extensive hidden fire damage behind the interior walls, requiring \$45,000 in structural repair. The contract does not contain a differing site conditions clause. Who bears the cost?

- A. The owner bears the cost because fire damage is a pre-existing condition that is 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 for the \$45,000 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

24. A contractor has a net worth of \$340,000 and working capital of \$310,000. The contractor applies for an unlimited license classification. Does the contractor qualify?

A. Yes, because both net worth and working capital each exceed the \$300,000 threshold required for unlimited status

B. No, because the combined total of \$650,000 does not reach the \$750,000 minimum for unlimited

C. No, because unlimited status requires a minimum net worth of \$500,000 regardless of working capital

D. Yes, because only the net worth must exceed \$300,000 for unlimited status

25. A contractor wants to apply for a BC-A/r restricted residential license classification. The contractor's associate says the classification allows projects up to \$125,000, requires a community college course instead of a trade exam, and prohibits joint ventures. Are all three claims correct?

A. Yes, all three claims are accurate — \$125,000 limit, community college course substitutes for the trade exam, and joint ventures are prohibited

B. Two are correct — the \$125,000 limit and trade exam substitution — but joint ventures are actually permitted

C. Only the \$125,000 limit is correct — a trade exam is required and joint ventures are permitted

D. None are correct because the BC-A/r has a \$100,000 limit and different requirements

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

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

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

C. No reciprocity exists between Tennessee and Georgia, requiring both exams independently

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

27. A contractor holds a Tennessee license with a monetary limit of \$580,000. The contractor carries \$100,000 in general liability insurance. Does the contractor meet the minimum GL requirement?

- A. Yes, because \$100,000 is the minimum GL for all Tennessee contractors regardless of monetary limit
- B. Yes, because GL requirements are based on individual project values rather than the monetary limit
- C. No, because the \$580,000 monetary limit exceeds \$500,000, placing the contractor in the \$501,000–\$1,500,000 tier that requires \$500,000 minimum GL coverage
- D. No, because all contractors with limits above \$250,000 must carry \$250,000 minimum GL insurance

28. A project owner terminates a contractor for cause on a \$1,500,000 commercial project after documented material breaches and three written cure notices. The contractor completed 55% of the work. A replacement contractor charges \$820,000 to complete the remaining 45%. The original remaining contract balance was \$675,000. What does the original contractor receive?

- A. \$825,000, representing 55% of the contract price for the completed work regardless of quality issues
- B. The value of acceptably completed work with no offset for the higher replacement cost
- C. \$825,000 plus a 10% termination fee for early contract dissolution by the owner
- D. The value of acceptably completed work, reduced by the \$145,000 difference between the replacement cost (\$820,000) and the remaining contract balance (\$675,000)

29. A roofing subcontractor wants to bid on a \$52,000 re-roofing project for a residential apartment complex. The subcontractor does not hold a Tennessee contractor license. Can the subcontractor perform this work?

- A. Yes, because residential roofing projects under \$75,000 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 or building type
- C. Yes, because the general contractor's license covers all roofing subcontractor work on residential buildings
- D. No, but only because the project exceeds \$25,000 — roofing work under \$25,000 is license-exempt

30. A contractor with 56 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, believing it is voluntary. Is the HR director correct?

- A. Yes, because E-Verify is a voluntary federal program with no state mandate in Tennessee
- B. No, because Tennessee requires E-Verify for employers with 50 or more employees — with 56 employees, both I-9 and E-Verify are required
- C. No, because E-Verify is required for all Tennessee employers regardless of employee count
- D. Yes, because E-Verify is mandatory only for employers holding federal government contracts

31. A contractor is building a commercial warehouse using the percentage-of-completion method. Contract price is \$2,000,000, costs incurred to date are \$800,000, and total estimated costs are \$1,600,000. What revenue should the contractor recognize?

- A. \$1,000,000, calculated as costs to date (\$800,000) divided by total estimated costs (\$1,600,000) multiplied by the contract price (\$2,000,000)
- B. \$800,000, matching revenue to costs incurred without applying any completion ratio
- C. \$1,000,000, calculated as 50% of the contract price because the project is approximately half complete
- D. \$2,000,000, because revenue is fully recognized once the project surpasses 40% completion

32. A contractor operating as a limited partnership has gross receipts of \$2,400,000, net earnings of \$310,000, net worth of \$420,000, and tangible property valued at \$380,000. What is the franchise tax liability?

- A. \$950, 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 limited partnerships
- C. \$1,050, calculated at \$0.25 per \$100 of net worth of \$420,000 because it is the greater value
- D. \$6,000, calculated at \$0.25 per \$100 of gross receipts of \$2,400,000

33. A contractor enters into a cost-plus-percentage contract with a 12% fee for a \$600,000 estimated commercial renovation. During construction, the owner approves an upgrade that adds \$25,000 to the project cost. What is the contractor's total fee on actual costs of \$625,000, and what structural problem does this contract create?

- A. \$72,000, based on the original estimate, because the fee is locked at contract execution
- B. \$75,000, and no structural problem exists because the owner approved the upgrade
- C. \$75,000, but the problem is minor because the fee increase of \$3,000 is negligible

D. \$75,000, and the structural problem is that the contractor has a financial incentive to encourage cost increases because each additional dollar generates 12 cents in fee income

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

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

35. A contractor wants to determine whether a fence construction project requires a Tennessee contractor license. The project includes: materials \$13,500, labor \$8,900, concrete footings \$1,200, and profit \$1,900. Does this project require a license?

- A. No, because fence construction is classified as a landscaping improvement exempt from contractor licensing
- 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 \$8,900 is under \$25,000 and the threshold applies only to labor costs
- D. Yes, because any project involving concrete footings automatically requires licensing regardless of total cost

36. A material supplier delivers \$68,000 in custom windows to a private commercial project. The supplier has no direct contract with the building owner — the contract is exclusively with the general contractor. The 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 — no prior notice is required for material 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 by certified mail to the general contractor within 30 days of each invoice
- D. File a breach of contract lawsuit within one year, which automatically creates a lien on the property

37. A contractor has a net worth of \$310,000 and working capital of \$285,000. 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 requirement for unlimited status
- B. Yes, because the average of the two values exceeds \$295,000, meeting the combined threshold
- 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 working capital of \$285,000 falls short of the threshold

38. A contractor is reviewing the standard order of precedence for a \$2,900,000 commercial construction contract. The agreement specifies 14-gauge metal studs for all interior partitions. The supplementary conditions specify 16-gauge metal studs for the storage areas. The specifications call for 20-gauge metal studs throughout. Which gauge should be installed in the storage areas?

- A. 14-gauge, because the agreement always takes precedence over all other contract documents
- B. 20-gauge, because the specifications provide the most detailed technical requirements for materials
- C. 16-gauge, because supplementary conditions take precedence over both general conditions and specifications in the standard order of precedence, though they yield to the agreement — and the supplementary conditions specifically address storage areas
- D. The contractor may select the least expensive option and document the selection in the project record

39. A contractor operating as an LLC wants to understand the preferred accounting method. The company's bookkeeper uses cash basis accounting. The contractor's bonding agent says the financial statements must be changed before applying for an increased bond line. What method does the bonding agent want?

- A. Accrual basis, because it is preferred by GAAP, bonding companies, and the Tennessee Board for providing the most accurate financial picture
- B. Modified cash basis, because it is the industry standard for construction companies seeking bonding
- C. Tax basis, because it ensures alignment with federal tax returns filed by the LLC
- D. Cash basis is acceptable — the bonding agent's concern is unfounded and has no impact on bond eligibility

40. An employer with 48 employees operates from a single location in Knoxville. A worker employed for 18 months requests 12 weeks of FMLA leave to care for a parent with a terminal illness. Is the worker eligible?

- A. Yes, because parental care for a terminal illness qualifies regardless of employer size or employee tenure
- B. Yes, because the 18-month tenure exceeds the 12-month minimum and the condition qualifies
- C. No, because FMLA requires 50 or more employees within a 75-mile radius, and this employer has only 48
- D. No, because FMLA leave for parental care is limited to 4 weeks per calendar year

41. A contractor wants to hire a plumbing subcontractor for a \$24,000 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 \$24,000 scope falls below the \$25,000 threshold — the BC classification excludes plumbing work exceeding \$25,000, and this scope does not exceed it
- B. Yes, because all plumbing work on commercial buildings requires a separate license regardless of value
- C. No, because the general contractor's BC-B license covers all subcontractor trades on the project
- D. Yes, because plumbing subcontractors must be licensed for any work exceeding \$10,000

42. A contractor's qualifying agent submits a resignation letter effective May 5. The contractor reports the departure to the Board on May 14. Was the report filed timely, and what is the replacement deadline?

- A. No, because departures must be reported within 5 business days, making the deadline May 12
- B. No, because the report was due within 10 days by May 15, but the replacement period is only 60 days
- C. Yes, the report was timely because the 10-day reporting window gives the contractor until May 15, and the replacement must be designated within 90 days by August 3
- D. Yes, because the 30-day reporting period gives the contractor until June 4

43. A contractor holds a Tennessee license with a monetary limit of \$2,500,000. 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 \$2,500,000 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 limits above \$2,000,000 must carry GL equal to the monetary limit

44. A contractor enters into a time-and-materials contract for emergency flood damage restoration on a commercial building. After two weeks, costs reach \$220,000 with additional work still needed. The building owner wants to impose a cost cap of \$300,000. What is the fundamental issue?

A. The owner can unilaterally impose a cost cap at any point because the owner controls the project budget

B. T&M contracts include an implied cost ceiling of 150% of the initial verbal estimate

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 cap requires a written contract modification agreed to by both parties

45. A contractor completes all work on a private residential addition on July 25. The homeowner withholds \$32,000 in final payment. The contractor files a mechanic's lien on October 20, which is 87 days after the last day of furnishing. Is the filing timely?

A. Yes, because the filing is within the 90-day statutory period measured from the last day of furnishing labor or materials

B. No, because residential mechanic's liens must be filed within 60 days of the last day of furnishing

C. Yes, but only because the contractor has a direct contract with the homeowner

D. No, because the 90-day filing period begins from the date the final payment was contractually due

46. A contractor operating as a C-corporation has net worth of \$460,000 and tangible property valued at \$530,000 in Tennessee. What is the franchise tax liability?

A. \$1,150, calculated at \$0.25 per \$100 of net worth because franchise tax always uses net worth

B. \$100, the minimum franchise tax for all Tennessee corporations regardless of size

C. \$1,325, calculated at \$0.25 per \$100 of tangible property of \$530,000 because it is the greater value

D. \$2,475, calculated at \$0.25 per \$100 of the combined net worth and tangible property

47. A contractor wants to obtain a Tennessee license with a monetary limit of \$3,500,000. 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. No, because monetary limits exceeding \$3,000,000 require an audited financial statement
- C. Yes, because the Board requires audited statements only when the limit exceeds \$4,000,000
- D. No, because all monetary limits above \$2,500,000 require an audited financial statement

48. A contractor wants to determine whether a workshop construction project requires a Tennessee contractor license. The project includes: materials \$11,800, labor \$9,600, site preparation \$2,300, and profit \$1,900. Does this project require a license?

- A. Yes, because the total project cost is \$25,600 (materials + labor + site preparation + profit), exceeding the \$25,000 licensing threshold
- B. No, because workshop construction is classified as an agricultural improvement exempt from licensing
- C. No, because the labor cost of \$9,600 is under \$25,000 and the threshold applies only to labor
- D. Yes, because all projects involving site preparation automatically require a contractor license

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

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

50. A contractor enters into a \$860,000 lump-sum contract for a commercial tenant improvement. During construction, the owner verbally approves a \$21,000 upgrade to the break room cabinetry. The contractor completes the work immediately. Three weeks later, the owner disputes the \$21,000 charge. What is the core issue?

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

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

## Practice Exam 25: Answer Key and Explanations

1. D. Excise tax —  $6.5\% \times \$395,000 = \$25,675$ . Options A and B describe franchise tax, not excise tax.
2. B. Lien enforcement — One year from filing. April 22, 2027. Negotiations do not toll the deadline.
3. D. Monetary limit — Net worth = \$315,000. Working capital =  $\$320,000 - \$187,000 = \$133,000$ . Limit =  $10 \times \$133,000 = \$1,330,000$ . Below \$1,400,000.
4. A. General partnership taxes — Exempt from franchise and excise tax. Only business tax applies.
5. C. Electrical licensing — BC excludes electrical exceeding \$25,000. \$32,000 exceeds threshold.
6. A. Disability discrimination — ADA requires 15+ (doesn't apply at 10). THRA at 8+ covers disability.
7. A. Cost-plus-fixed-fee — \$52,000 fee constant regardless of actual costs.
8. B. Sales tax — Contractor is end user.  $\$44,000 \times 9.25\% = \$4,070$ . Owner's exemption doesn't transfer.
9. A. Legal capacity — A 16-year-old generally lacks legal capacity to enter binding contracts.
10. B. GMP shared savings — \$90,000 split 40/60: owner \$36,000, contractor \$54,000.
11. C. S-corporation taxes — Subject to both franchise and excise tax despite pass-through status.
12. C. Financial statements — Reviewed acceptable for limits of \$3,000,000 or less. \$2,900,000 qualifies.
13. B. Unit-price quantity risk — Owner bears quantity risk.  $2,300 \times \$34 = \$78,200$ .
14. C. Scaffold design — Safety factor meets 4:1 minimum. But qualified person with specific design training required. General experience insufficient.

15. D. Termination for convenience — Costs + earned profit. No anticipated profit. Total =  $\$425,250 + \$47,250 = \$472,500$ .
16. B. FMLA — 50+ employees, 2 years tenure, newborn care qualifies. All conditions met.
17. D. Excavation protection — OSHA requires protection at 5+ feet unless stable rock. No exception for barely over.
18. D. Fatality reporting — 8 hours from employer learning.  $2:10 \text{ PM} + 8 = 10:10 \text{ PM}$  Wednesday.
19. B. Business tax deduction — Only licensed subcontractor payments (\$1,200,000) deductible.
20. C. LMC threshold — Required at \$100,000+. \$99,000 below threshold.
21. A. Conditional waiver — Effective when payment actually received. Check cleared. Condition satisfied.
22. A. Sole proprietorship taxes — Exempt from franchise and excise tax. Only business tax applies.
23. D. Lump-sum risk — Without differing site conditions clause, contractor bears unforeseen costs.
24. A. Unlimited license — Both net worth (\$340,000) and working capital (\$310,000) each exceed \$300,000.
25. A. BC-A/r — All three correct: \$125,000 limit, community college course substitutes, joint ventures prohibited.
26. B. Georgia reciprocity — Trade exam waived. Business and Law exam always required.
27. C. GL tiers — \$580,000 exceeds \$500,000. \$501,000–\$1,500,000 tier requires \$500,000 minimum. \$100,000 insufficient.
28. D. Termination for cause — Value of acceptable work offset by \$145,000 additional completion cost.
29. B. Roofing licensing — Licensed since January 1, 2014, regardless of value.
30. B. E-Verify — Required for 50+ employees. Both I-9 and E-Verify required at 56.
31. A. Percentage of completion — Revenue =  $(\$800,000 \div \$1,600,000) \times \$2,000,000 = \$1,000,000$ .

32. C. Franchise tax —  $\$0.25$  per  $\$100$  of greater value ( $\$420,000$  net worth).  $\$420,000 \div 100 \times \$0.25 = \$1,050$ .
33. D. Cost-plus-percentage —  $12\% \times \$625,000 = \$75,000$ . Structural incentive to encourage cost increases.
34. D. Drug-Free Workplace — All four components required. Omitting reasonable suspicion disqualifies.
35. B. Licensing threshold — Total =  $\$13,500 + \$8,900 + \$1,200 + \$1,900 = \$25,500$ . Exceeds  $\$25,000$ .
36. B. Remote claimant — Notice of Nonpayment within 90 days, file lien within 90 days.
37. D. Unlimited license — Both must exceed  $\$300,000$ . Working capital ( $\$285,000$ ) falls short.
38. C. Order of precedence — Supplementary conditions address storage areas specifically and take precedence over specifications. The agreement addresses "all interior partitions" generally, while the supplementary conditions specifically modify storage areas.
39. A. Accounting method — Accrual basis preferred by GAAP, bonding companies, and the Board.
40. C. FMLA — Requires 50+ employees. Only 48 employees. Threshold not met.
41. A. Plumbing licensing — BC excludes plumbing exceeding  $\$25,000$ .  $\$24,000$  below threshold.
42. C. QA departure — May 5 + 10 days = May 15. Report on May 14 is timely. Replacement within 90 days = August 3.
43. C. GL tiers —  $\$2,500,000$  exceeds  $\$1,501,000$ . Highest tier requires  $\$1,000,000$  minimum.  $\$500,000$  insufficient.
44. D. T&M contracts — No inherent cost ceiling. Any cap requires written modification by both parties.
45. A. Lien filing — 87 days after last furnishing, within 90 days. Timely.
46. C. Franchise tax —  $\$0.25$  per  $\$100$  of greater value ( $\$530,000$  tangible property).  $\$530,000 \div 100 \times \$0.25 = \$1,325$ .
47. B. Financial statements — Limits exceeding  $\$3,000,000$  require audited statement.

48. A. Licensing threshold — Total = \$11,800 + \$9,600 + \$2,300 + \$1,900 = \$25,600. Exceeds \$25,000.

49. B. Discrimination thresholds — Title VII at 15+, ADA at 15+: both apply. ADEA at 20+: does not apply at 19.

50. D. Change order — Should be written and signed before work. Lack of documentation weakens position.