

# PRACTICE EXAM 30: 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 \$2,800,000, net earnings of \$350,000, net worth of \$430,000, and tangible property valued at \$390,000. What combination of Tennessee taxes applies?

- 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
- D. No Tennessee taxes apply because limited partnerships are pure pass-through entities

2. A contractor has total assets of \$1,020,000, total liabilities of \$655,000, current assets of \$385,000, and current liabilities of \$252,000. The contractor wants to bid on a \$1,400,000 project. Can the monetary limit support this?

- A. Yes, because the net worth of \$365,000 supports a limit of \$3,650,000
- B. No, because the monetary limit is ten times the lesser of net worth (\$365,000) or working capital (\$133,000) — the limit is \$1,330,000, which falls below \$1,400,000
- C. Yes, because total assets of \$1,020,000 support any project under \$2,000,000
- D. No, because the Board requires a minimum current ratio of 2.0 for projects above \$1,000,000

3. A contractor signs an unconditional lien waiver and delivers it to the general contractor before receiving the corresponding \$58,000 progress payment. Two months later, the general contractor's company dissolves and the payment is never made. What is the legal effect?

- A. The unconditional waiver is void because the general contractor's dissolution constitutes breach
- B. The unconditional waiver converts to a conditional waiver upon the company's dissolution
- C. The unconditional waiver is effective immediately upon signing — the contractor has released lien rights regardless of whether payment is ever received
- D. The waiver is suspended until the dissolution proceedings are complete

4. A contractor operating as a C-corporation has net earnings of \$365,000, net worth of \$510,000, and tangible property valued at \$470,000. What is the Tennessee excise tax liability?

- A. \$1,275, calculated at \$0.25 per \$100 of the net worth of \$510,000
- B. \$1,175, calculated at \$0.25 per \$100 of tangible property of \$470,000
- C. \$0, because C-corporations with net earnings under \$500,000 are exempt from excise tax
- D. \$23,725, calculated at 6.5% of the net earnings of \$365,000

5. An employer with 10 employees in Tennessee terminates a worker who recently announced 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 10 or more employees
- C. The ADEA, which covers pregnancy discrimination for employers with 10 or more employees
- D. No federal or state law covers pregnancy claims for employers with only 10 employees

6. A subcontractor furnishes labor and materials to a federally funded post office construction project. The general contractor has not paid the subcontractor for \$105,000. Can the subcontractor file a mechanic's lien?

- A. Yes, because federal buildings in Tennessee are subject to state mechanic's lien laws
- B. Yes, but the lien must be filed within 30 days rather than 90 days for federal projects
- C. No, and no 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 under the Miller Act

7. A contractor enters into a cost-plus-percentage contract with a 13% fee for a \$650,000 estimated commercial renovation. The owner requests an upgrade adding \$30,000 to the project. What is the contractor's fee on the upgrade, and what structural problem does this create?

- A. \$0 on the upgrade because the fee applies only to the original estimate
- B. \$3,900 on the upgrade, and the structural problem is that the contractor has a financial incentive to encourage cost increases because each additional dollar generates 13 cents in fee income
- C. \$3,900 on the upgrade with no structural problem because the owner approved the upgrade

D. \$3,000 on the upgrade because the fee is reduced to 10% on change order work

8. A contractor is excavating a water main trench that reaches 5 feet 8 inches deep in soil classified as Type A. The superintendent says no protective system is needed because "Type A is the most cohesive soil." Is the superintendent correct?

A. Yes, because Type A soil allows unprotected excavation to 8 feet with competent person oversight

B. No, because OSHA requires a protective system at 5 feet or deeper regardless of soil classification, unless entirely in stable rock — Type A is not stable rock

C. Yes, because a competent person's field assessment overrides OSHA depth requirements

D. No, because Type A soil requires protection at all depths regardless of the 5-foot threshold

9. A contractor enters into a \$1,200,000 stipulated-sum contract for a commercial warehouse. After completing 55% of the work, the owner terminates for convenience. The contractor has incurred \$594,000 in costs and earned \$66,000 in profit on completed work. The contractor claims \$54,000 in anticipated profit on the unperformed 45%. What does the contractor receive?

A. \$1,200,000, the full contract price, because the owner terminated without fault

B. \$714,000, consisting of costs plus earned profit plus anticipated profit

C. \$594,000, consisting of only the direct costs with no profit recovery

D. \$660,000, consisting of costs (\$594,000) plus earned profit (\$66,000), with no recovery of anticipated profit on unperformed work

10. A contractor files a mechanic's lien on a private commercial property on July 18, 2026. The property owner's attorney delays settlement discussions for months. By what date must the enforcement lawsuit be filed?

A. July 18, 2027, which is one year from the filing date — settlement delays do not toll this deadline

B. October 16, 2026, which is 90 days from the lien filing date

C. January 15, 2027, which is 180 days from the lien filing date

D. July 18, 2028, which is two years from the filing date

11. A contractor licensed in Georgia wants to obtain a Tennessee license. The contractor holds a valid Georgia license, passed the Georgia trade exam, and holds a NASCLA Accredited Commercial Exam credential. What testing is required?

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

12. A contractor has a net worth of \$310,000 and working capital of \$295,000. The contractor applies for an unlimited license. Does the contractor qualify?

- A. Yes, because the net worth exceeds \$300,000 and only one value needs to meet the threshold
- B. No, because both net worth and working capital must each independently exceed \$300,000, and the working capital of \$295,000 falls short
- C. Yes, because the average of the two values exceeds \$300,000
- D. No, because unlimited requires a minimum net worth of \$500,000

13. A contractor operating as a sole proprietorship has gross receipts of \$860,000 and net earnings of \$112,000. The CPA says the business owes franchise and excise tax. Is the CPA correct?

- A. Yes, because all business entities with gross receipts exceeding \$500,000 owe franchise and excise tax
- B. No, because sole proprietorships are exempt from both franchise and excise tax — only business tax on gross receipts applies
- 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

14. A contractor wants to hire an HVAC subcontractor for a \$27,500 scope of work on a commercial building. The general contractor holds a valid BC-B license. Does the HVAC subcontractor need a separate license?

- A. Yes, because the BC classification excludes HVAC work exceeding \$25,000, and the \$27,500 scope exceeds that threshold
- B. No, because the general contractor's BC-B license covers all mechanical trades
- C. No, because HVAC licensing is required only for scopes exceeding \$50,000
- D. Yes, because all HVAC work on commercial buildings requires a separate license regardless of value

15. A contractor is reviewing the standard order of precedence for a \$2,900,000 commercial project. The specifications require ceramic tile in the main corridor. The addenda changed the requirement to porcelain tile in the main corridor. The drawings show vinyl composition tile in the main corridor. Which material should be installed?

- A. Ceramic tile, because specifications always take precedence over addenda and drawings
- B. Vinyl composition tile, because the drawings provide the most detailed material information
- C. Porcelain tile, because addenda modify all previously issued documents and represent the most current design intent
- D. The contractor may choose any material and document the selection in the submittal log

16. An employer with 55 employees at a single Nashville location has a worker employed for 16 months who requests 12 weeks of 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 16 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 for spousal FMLA leave
- D. Yes, but only if the spouse's condition requires inpatient hospitalization

17. A contractor enters into a cost-plus-fixed-fee contract with a \$55,000 fixed fee for a \$680,000 estimated renovation. Material price decreases bring actual costs to \$610,000. What fee does the contractor receive?

- A. \$55,000, because a fixed fee remains constant regardless of whether actual costs increase or decrease
- B. \$49,338, reduced proportionally because actual costs decreased from the estimate
- C. \$61,000, recalculated at 10% of actual costs because the fee adjusts with cost changes
- D. \$55,000 minus a \$7,000 credit for the reduced management burden

18. A contractor's employee suffers a fatal electrocution at 2:15 PM on Wednesday. The site foreman calls the office at 2:40 PM. By what time must the employer report this fatality to OSHA?

- A. By 2:40 PM on Thursday, which is within 24 hours of the employer learning
- B. By 2:15 PM on Thursday, which is within 24 hours of the actual time of death
- C. By 2:40 PM the following Wednesday, which is within 5 working days
- D. By 10:40 PM on Wednesday, which is within 8 hours of the employer learning about the fatality

19. A contractor operating as an S-corporation has net earnings of \$240,000, net worth of \$325,000, and tangible property valued at \$290,000. The controller says S-corporations are exempt from franchise and excise tax. Is this correct?

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

20. A roofing subcontractor wants to bid on a \$47,000 re-roofing project for a commercial office building. The subcontractor does not hold a Tennessee license. Can the subcontractor perform this work?

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

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

- A. The contractor receives the entire \$80,000 as an efficiency bonus
- B. The owner receives the full \$80,000 because the GMP exists solely for owner protection
- C. The owner receives \$32,000 (40%) and the contractor receives \$48,000 (60%)
- D. The savings are deposited in joint escrow until warranty obligations expire

22. A contractor wants to determine whether a gazebo construction project requires a Tennessee contractor license. The project includes: materials \$12,400, labor \$9,300, concrete foundation \$1,900, and profit \$1,900. Does this require a license?

- A. Yes, because the total project cost is \$25,500, exceeding the \$25,000 licensing threshold
- B. No, because gazebos are classified as landscape features exempt from licensing
- C. No, because the labor cost of \$9,300 is under \$25,000 and the threshold applies only to labor
- D. Yes, because all projects involving concrete foundations require a license regardless of cost

23. A masonry subcontractor is bidding on a \$109,000 scope of masonry work for a new warehouse. The subcontractor does not hold an LMC license. Does the subcontractor need one?

- A. No, because the LMC threshold is \$125,000 for commercial masonry projects
- B. No, because the general contractor's license covers all masonry subcontractor work
- C. Yes, because all masonry subcontractors must hold an LMC license regardless of value
- D. Yes, because the LMC license is required when masonry work reaches \$100,000 or more, and \$109,000 exceeds that threshold

24. A project owner terminates a contractor for cause on a \$1,700,000 commercial project after documented breaches and two written cure notices. The contractor completed 50%. A replacement contractor charges \$1,000,000 to complete the remaining 50%. The original remaining balance was \$850,000. What does the original contractor receive?

- A. \$850,000, representing 50% of the contract price for completed work
- B. The value of acceptably completed work with no offset for replacement cost
- C. \$850,000 plus a 10% termination fee for early dissolution
- D. The value of acceptably completed work, reduced by the \$150,000 difference between replacement cost (\$1,000,000) and remaining balance (\$850,000)

25. A contractor operating as an LLC has gross receipts of \$1,800,000. The company paid \$1,250,000 to licensed subcontractors and \$165,000 to an unlicensed crew. What is deductible from gross receipts for business tax?

- A. \$1,415,000, because all payments to subcontractors and crews are deductible
- B. \$1,250,000, 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
- D. \$625,000, because the deduction is capped at 50% of total subcontractor payments

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

- A. Yes, because the \$470,000 limit falls in the up-to-\$500,000 tier, which requires \$100,000 minimum GL
- B. No, because all Tennessee contractors must carry \$250,000 minimum GL insurance
- C. No, because the GL minimum is 25% of the monetary limit, requiring \$117,500
- D. Yes, because GL requirements are based on individual project values, not the monetary limit

27. A contractor is reviewing the five essential elements of a valid construction contract. The contractor has offer, acceptance, consideration, and legal capacity. The project involves constructing an underground bunker specifically designed for storing stolen merchandise. What element is missing?

- A. Legal capacity, because parties engaged in criminal activities lack the capacity to contract
- B. Consideration, because contracts for illegal purposes cannot be supported by valid consideration
- C. Legal purpose — the contract lacks legal purpose because it involves constructing a facility intended for illegal use
- D. Offer, because offers involving illegal activities are automatically void under Tennessee law

28. A contractor wants to hire an electrical subcontractor for a \$24,800 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 \$24,800 scope falls below the \$25,000 threshold — the BC classification excludes electrical exceeding \$25,000, and this scope does not exceed it
- B. Yes, because all electrical work on commercial buildings requires a separate license regardless of value
- C. No, because the general contractor's BC-B license covers all electrical work on the project
- D. Yes, because electrical subcontractors must be licensed for any work exceeding \$10,000

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

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

30. A contractor enters into a \$740,000 lump-sum contract for a commercial tenant improvement. During demolition, the contractor discovers extensive hidden mold requiring

\$42,000 in professional remediation. The contract has no differing site conditions clause. Who bears the cost?

- A. The owner bears the cost because mold is a pre-existing condition always belonging to the owner
- B. The cost is split equally under the implied shared-risk doctrine
- C. The contractor bears the cost because in a lump-sum contract without a differing site conditions clause, the contractor assumes the risk of unforeseen conditions
- D. The contractor can file a mechanic's lien for the \$42,000 without prior notice

31. A contractor has total assets of \$1,250,000, total liabilities of \$810,000, current assets of \$470,000, and current liabilities of \$135,000. Does the contractor qualify for unlimited status?

- A. Yes, because both net worth (\$440,000) and working capital (\$335,000) each independently exceed the \$300,000 threshold
- B. No, because the working capital of \$335,000 does not meet the \$400,000 minimum
- C. Yes, because the net worth alone exceeding \$300,000 satisfies the sole requirement
- D. No, because unlimited requires both values to exceed \$500,000

32. A contractor licensed in Mississippi wants to obtain a Tennessee license. The contractor holds a valid Mississippi license and has passed the Mississippi trade exam. What testing applies?

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

33. A contractor operating as a general partnership has two partners and 3 employees. One partner wants both partners exempted from workers' compensation. What is the correct obligation?

- A. Workers' compensation is required for all 3 employees because Tennessee mandates coverage for employers with one or more employees, but the partners can individually exempt themselves by registering with the Secretary of State
- B. Both partners and all employees are automatically exempt because partnerships are not employers
- C. Workers' compensation is required for all workers including partners with no exemption available
- D. Coverage is optional because partnerships with fewer than 10 workers are exempt

34. A contractor enters into a time-and-materials contract for emergency tornado damage repair on a commercial building. After two weeks, costs reach \$195,000. The owner demands a cost cap of \$250,000. What is the fundamental issue?

- A. The owner can unilaterally impose a cost cap at any point during a T&M contract
- B. T&M contracts have no inherent cost ceiling — any cap requires a written contract modification agreed to by both parties
- C. T&M contracts include an implied ceiling equal to 150% of the initial verbal estimate
- D. The owner should have negotiated a GMP before work began because T&M contracts cannot be modified

35. A contractor holds a Tennessee license with a monetary limit of \$2,100,000. 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, not the monetary limit
- C. No, because all contractors with limits above \$2,000,000 must carry GL equal to the limit
- D. No, because the \$2,100,000 limit exceeds \$1,501,000, placing the contractor in the highest tier requiring \$1,000,000 minimum GL

36. A contractor purchases \$48,000 in plumbing fixtures for a commercial project. The combined state and local sales tax rate is 9.5%. The building owner is a nonprofit hospital with a valid exemption. Can the contractor avoid sales tax?

- A. Yes, because materials for tax-exempt facilities inherit the exemption at purchase
- B. Yes, if the contractor provides the supplier with the hospital's exemption certificate
- C. No, because the contractor is the end user and must pay the combined 9.5% sales tax of \$4,560 at purchase regardless of the owner's status
- D. No, but the contractor can file a quarterly refund with the Tennessee Department of Revenue

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

- A. No, because departures must be reported within 5 business days
- B. Yes, because the 10-day window gives the contractor until May 20, and the replacement must be designated within 90 days by August 8
- C. Yes, because the 30-day reporting period gives the contractor until June 9
- D. No, because the replacement period is only 60 days, not 90 days

38. A contractor enters into a \$1,550,000 stipulated-sum contract for a commercial office. After completing 60% of the work, the owner terminates for convenience. The contractor has incurred \$837,000 in costs and earned \$93,000 in profit on completed work. The contractor claims \$62,000 in anticipated profit on the unperformed 40%. What does the contractor receive?

- A. \$1,550,000, the full contract price
- B. \$992,000, consisting of costs plus earned profit plus anticipated profit
- C. \$837,000, consisting of only direct costs
- D. \$930,000, consisting of costs (\$837,000) plus earned profit (\$93,000), with no recovery of anticipated profit on unperformed work

39. A contractor operating as a C-corporation has net worth of \$480,000 and tangible property valued at \$530,000. What is the franchise tax liability?

- A. \$1,200, 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
- C. \$1,325, calculated at \$0.25 per \$100 of tangible property of \$530,000 because it is the greater value
- D. \$2,525, calculated at \$0.25 per \$100 of the combined net worth and tangible property

40. A contractor wants to obtain a Tennessee license with a monetary limit of \$3,500,000. The contractor has a reviewed financial statement. Does this meet the Board's requirements?

- A. Yes, because reviewed statements are acceptable for limits up to \$5,000,000
- B. Yes, because the Board requires audited statements only when limits exceed \$4,000,000
- C. No, because all limits above \$2,500,000 require an audited statement
- D. No, because monetary limits exceeding \$3,000,000 require an audited financial statement

41. A contractor is building a commercial parking garage. A scaffold platform stands 13 feet above ground. The scaffold has a 3.9:1 safety factor and was designed by a foreman with 17 years of general construction experience but no specific scaffold design training. Does this scaffold meet OSHA requirements?

- A. Yes, because the 3.9:1 safety factor is close enough to the 4:1 minimum
- B. Yes, because 17 years of experience qualifies the foreman as both competent and qualified

- C. No, because scaffolds above 10 feet require a licensed professional engineer
- 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

42. A contractor wants to apply for a BC-A/r restricted residential classification. Which restrictions accurately describe this classification?

- A. Projects under \$150,000, trade exam required, joint ventures permitted, subcontractors prohibited
- B. Projects under \$100,000, no trade exam, joint ventures prohibited, subcontractors prohibited
- C. Projects under \$125,000, no trade exam required (community college course substitutes), joint ventures prohibited, subcontractors permitted
- D. Projects under \$125,000, trade exam required, joint ventures permitted, subcontractors permitted

43. A contractor operating as a sole proprietorship earns \$188,000 in net self-employment income. What is the approximate self-employment tax liability?

- A. Approximately \$28,764 at 15.3%, covering both the Social Security (12.4%) and Medicare (2.9%) portions
- B. Approximately \$14,382 at 7.65% because sole proprietors pay only the employee half of FICA
- C. Approximately \$5,452 at 2.9% for the Medicare portion only
- D. Approximately \$23,312 at 12.4% for the Social Security portion only

44. 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 threshold
- B. Only Title VII applies — ADA and ADEA both require 25+ employees
- C. Title VII and ADA apply at 15+ employees, but ADEA does not apply because it requires 20+ employees
- D. None apply because the minimum threshold for federal discrimination law is 20+

45. A contractor completes all work on a private residential addition on September 20. The homeowner withholds \$28,000. The contractor files a mechanic's lien on December 16, 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 liens must be filed within 60 days of the last day of furnishing
- C. Yes, but only because the contractor has a direct contract with the homeowner
- D. No, because the 90-day period begins from the date the final payment was contractually due

46. A contractor wants to hire a plumbing subcontractor for a \$26,000 scope of work on a commercial building. The general contractor holds a valid BC-B license. Does the plumbing subcontractor need a separate license?

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

47. A material supplier delivers \$76,000 in custom doors to a private commercial project. The supplier has no direct contract with the building owner. The general contractor has not paid. What must the supplier do to preserve lien rights?

- A. File a mechanic's lien directly within 90 days — no prior notice is required
- B. Send a demand letter 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 lien within 90 days of the last furnishing date
- D. File a breach of contract lawsuit within one year to create an automatic lien

48. A contractor is building a commercial office using the percentage-of-completion method. Contract price is \$1,400,000, costs to date are \$504,000, and total estimated costs are \$1,120,000. What revenue should be recognized?

- A. \$504,000, matching revenue to costs incurred without applying a completion ratio
- B. \$700,000, calculated as 50% of the contract price
- C. \$630,000, calculated as costs to date (\$504,000) divided by total estimated costs (\$1,120,000) multiplied by the contract price (\$1,400,000)
- D. \$1,400,000, because revenue is fully recognized once the project surpasses 35% completion

49. A contractor enters into a \$680,000 lump-sum contract for a dental office. During construction, the owner verbally approves a \$15,500 upgrade to the sterilization room

equipment. The contractor completes the work. Three 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 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

50. An employer with 48 employees at a single location has a worker employed for 2 years who 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
- B. No, because FMLA requires 50 or more employees within a 75-mile radius, and this employer has only 48
- C. Yes, because the 2-year tenure exceeds the 12-month minimum and the condition qualifies
- D. No, because FMLA leave for parental care is limited to 4 weeks per calendar year

## Practice Exam 30: Answer Key and Explanations

1. C. Limited partnership taxes — All three apply: business tax, franchise tax, excise tax. Not exempt.
2. B. Monetary limit — Net worth = \$365,000. Working capital =  $\$385,000 - \$252,000 = \$133,000$ . Limit =  $10 \times \$133,000 = \$1,330,000$ . Below \$1,400,000.
3. C. Unconditional waiver — Effective immediately upon signing regardless of payment or dissolution.
4. D. Excise tax —  $6.5\% \times \$365,000 = \$23,725$ . Options A and B describe franchise tax.
5. A. Pregnancy discrimination — Title VII/PDA requires 15+ (doesn't apply at 10). THRA at 8+ covers pregnancy.
6. D. Public property — Liens cannot be filed against federal property. Remedy is Miller Act payment bond.
7. B. Cost-plus-percentage —  $13\% \times \$30,000 = \$3,900$ . Incentive to encourage cost increases.

8. B. Excavation — OSHA requires protection at 5+ feet unless stable rock. Type A not stable rock.
9. D. Termination for convenience — Costs + earned profit. No anticipated profit. Total =  $\$594,000 + \$66,000 = \$660,000$ .
10. A. Lien enforcement — One year from filing. July 18, 2027. Settlement delays don't toll.
11. D. Georgia reciprocity and NASCLA — Trade exam waived. NASCLA for BC-B. Business and Law exam required.
12. B. Unlimited license — Both must each exceed \$300,000. Working capital (\$295,000) falls short.
13. B. Sole proprietorship taxes — Exempt from franchise and excise. Only business tax applies.
14. A. HVAC licensing — BC excludes HVAC exceeding \$25,000. \$27,500 exceeds threshold.
15. C. Addenda — Modify previously issued documents. Porcelain tile in addenda controls.
16. B. FMLA — 50+ employees, 16 months tenure, spousal care qualifies. All conditions met.
17. A. Cost-plus-fixed-fee — \$55,000 fee constant regardless of actual costs.
18. D. Fatality reporting — 8 hours from employer learning. 2:40 PM + 8 = 10:40 PM Wednesday.
19. D. S-corporation taxes — Subject to both franchise and excise despite pass-through status.
20. A. Roofing licensing — Licensed since January 1, 2014, regardless of value.
21. C. GMP shared savings — \$80,000 split 40/60: owner \$32,000, contractor \$48,000.
22. A. Licensing threshold — Total =  $\$12,400 + \$9,300 + \$1,900 + \$1,900 = \$25,500$ . Exceeds \$25,000.
23. D. LMC threshold — Required at \$100,000+. \$109,000 exceeds threshold.
24. D. Termination for cause — Value of acceptable work offset by \$150,000 additional completion cost.
25. B. Business tax deduction — Only licensed subcontractor payments (\$1,250,000) deductible.

26. A. GL tiers — \$470,000 in up-to-\$500,000 tier. \$100,000 minimum. Policy meets requirement.
27. C. Legal purpose — Constructing a facility for storing stolen goods lacks legal purpose.
28. A. Electrical licensing — BC excludes electrical exceeding \$25,000. \$24,800 below threshold.
29. A. Drug-Free Workplace — All four components required. Omitting reasonable suspicion disqualifies.
30. C. Lump-sum risk — Without differing site conditions clause, contractor bears unforeseen costs.
31. A. Unlimited license — Net worth = \$440,000, working capital = \$335,000. Both exceed \$300,000. Qualifies.
32. B. Mississippi reciprocity — Trade exam waived. Business and Law exam always required.
33. A. Workers' comp — Required for 1+ employees. Partners can individually exempt via Secretary of State.
34. B. T&M contracts — No inherent cost ceiling. Any cap requires written modification by both parties.
35. D. GL tiers — \$2,100,000 exceeds \$1,501,000. Highest tier requires \$1,000,000. \$500,000 insufficient.
36. C. Sales tax — Contractor is end user.  $\$48,000 \times 9.5\% = \$4,560$ . Hospital's exemption doesn't transfer.
37. B. QA departure —  $\text{May } 10 + 10 = \text{May } 20$ . Report on May 19 is timely. Replacement within 90 days = August 8.
38. D. Termination for convenience — Costs + earned profit. No anticipated profit. Total =  $\$837,000 + \$93,000 = \$930,000$ .
39. C. Franchise tax — \$0.25 per \$100 of greater value (\$530,000 tangible).  $\$530,000 \div 100 \times \$0.25 = \$1,325$ .
40. D. Financial statements — Limits exceeding \$3,000,000 require audited statement.
41. D. Scaffold — 4:1 minimum (3.9:1 fails). Qualified person required (general experience insufficient). Both unmet.

42. C. BC-A/r — \$125,000 limit, no trade exam (community college course), joint ventures prohibited, subcontractors permitted.

43. A. Self-employment tax —  $15.3\% \times \$188,000 = \$28,764$ .

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

45. A. Lien filing — 87 days after last furnishing, within 90 days. Timely.

46. B. Plumbing licensing — BC excludes plumbing exceeding \$25,000. \$26,000 exceeds threshold.

47. C. Remote claimant — Notice of Nonpayment within 90 days, file lien within 90 days.

48. C. Percentage of completion — Revenue =  $(\$504,000 \div \$1,120,000) \times \$1,400,000 = 0.45 \times \$1,400,000 = \$630,000$ .

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

50. B. FMLA — Requires 50+ employees. Only 48. Threshold not met.