

PRACTICE EXAM 31: 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 C-corporation has net earnings of \$430,000, net worth of \$550,000, and tangible property valued at \$510,000. What is the Tennessee excise tax liability?

- A. \$1,375, calculated at \$0.25 per \$100 of net worth of \$550,000
- B. \$1,275, calculated at \$0.25 per \$100 of tangible property of \$510,000
- C. \$0, because C-corporations with net earnings under \$500,000 are exempt from excise tax
- D. \$27,950, calculated at 6.5% of the net earnings of \$430,000

2. A contractor has total assets of \$930,000, total liabilities of \$600,000, current assets of \$350,000, and current liabilities of \$217,000. The contractor wants to bid on a \$1,400,000 project. Can the monetary limit support this?

- A. Yes, because the net worth of \$330,000 supports a limit of \$3,300,000
- B. Yes, because total assets of \$930,000 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 (\$330,000) or working capital (\$133,000) — the limit is \$1,330,000, which falls below \$1,400,000

3. A contractor enters into a cost-plus-percentage contract with a 14% fee for a \$620,000 estimated commercial renovation. The contractor discovers that a standard mechanical system would save the owner \$22,000 compared to the specified premium system while meeting all code requirements. What financial disincentive exists?

- A. No disincentive exists because the owner makes all final equipment decisions independently
- B. The contractor loses \$3,080 in fee income because 14% of the \$22,000 savings is eliminated, creating a financial disincentive to recommend cost reductions
- C. A positive disincentive because value engineering credits increase the contractor's fee by 5%
- D. The disincentive is neutral because the owner independently verifies all substitution proposals

4. A contractor operating as a general partnership has two partners and 5 employees. One partner wants both partners exempted from workers' compensation. What is the correct obligation?

- A. Both partners and all employees are automatically exempt because partnerships are not employers
- B. Coverage is optional because partnerships with fewer than 10 total workers are exempt
- C. Workers' compensation is required for all 5 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
- D. Workers' compensation is required for all workers including partners with no exemption available

5. A contractor files a mechanic's lien on a private residential property on September 22, 2026. The homeowner's attorney delays settlement discussions until July 2027. By what date must the enforcement lawsuit be filed?

- A. By December 21, 2026, which is 90 days from the lien filing date
- B. By September 22, 2027, which is one year from the filing date — settlement delays do not toll this statutory deadline
- C. By March 22, 2027, which is 180 days from the lien filing date
- D. By September 22, 2028, which is two years from the filing date

6. A subcontractor furnishes labor and materials to a city-funded public library construction project. The general contractor has not paid the subcontractor for \$92,000. Can the subcontractor file a mechanic's lien against the library?

- A. Yes, because library projects are classified as educational facilities subject to mechanic's lien provisions
- B. Yes, but only if the subcontractor files within 30 days of the last day of furnishing
- C. No, and no remedy exists because municipal cultural facilities have sovereign immunity
- D. No, because mechanic's liens cannot be filed against public property — the subcontractor must pursue a claim against the payment bond

7. A contractor is reviewing the standard order of precedence for a \$2,700,000 commercial project. The specifications require R-30 batt insulation in the exterior walls. The addenda changed the requirement to R-21 spray foam insulation for the warehouse walls only. The drawings show R-13 fiberglass insulation in the warehouse walls. Which insulation should be installed in the warehouse walls?

- A. R-30 batt, because specifications always take precedence over addenda and drawings
- B. R-13 fiberglass, because drawings provide the most location-specific material information
- C. R-21 spray foam, because addenda modify all previously issued documents and represent the most current design intent
- D. The contractor may choose any insulation type and document the selection in the submittal log

8. A contractor enters into a \$1,350,000 stipulated-sum contract for a commercial office building. After completing 55% of the work, the owner terminates for convenience. The contractor has incurred \$668,250 in costs and earned \$74,250 in profit on completed work. The contractor claims \$60,750 in anticipated profit on the unperformed 45%. What does the contractor receive?

- A. \$1,350,000, the full contract price, because the owner terminated without contractor fault
- B. \$803,250, consisting of costs plus earned profit plus anticipated profit on the unperformed work
- C. \$668,250, consisting of only the direct costs with no profit on any portion of the work
- D. \$742,500, consisting of costs (\$668,250) plus earned profit (\$74,250), with no recovery of anticipated profit on unperformed work

9. An employer with 8 employees in Tennessee terminates a 60-year-old worker and replaces the position with a 28-year-old hire. Under which law can the worker file an age discrimination complaint?

- A. The federal ADEA, which applies to employers with 5 or more employees
- B. The Tennessee Human Rights Act, which applies to employers with 8 or more employees and covers age discrimination
- C. Title VII, which covers age discrimination for employers with 8 or more employees
- D. No federal or state law covers age discrimination for employers with only 8 employees

10. A contractor wants to hire an electrical subcontractor for a \$31,000 scope of work on a commercial building. The general contractor holds a valid BC-B license. Does the electrical subcontractor need a separate license?

- A. No, because the general contractor's BC-B license covers all electrical work on commercial projects
- B. Yes, because the BC classification excludes electrical work exceeding \$25,000, and the \$31,000 scope exceeds that threshold
- C. No, because electrical licensing is required only for scopes exceeding \$50,000

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

11. A contractor operating as a sole proprietorship has gross receipts of \$780,000 and net earnings of \$95,000. 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. Yes, because all businesses with net earnings exceeding \$75,000 owe excise tax regardless of structure

C. No, because sole proprietorships are exempt from both franchise and excise tax — only business tax on gross receipts applies

D. No, because sole proprietorships are exempt from all Tennessee state-level business taxes

12. A contractor wants to obtain a Tennessee license with a monetary limit of \$3,600,000. The contractor has a reviewed financial statement. 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 limits exceed \$4,000,000

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

D. No, because all monetary limits above \$2,500,000 require an audited statement

13. A contractor operating as a limited partnership has gross receipts of \$2,500,000, net earnings of \$300,000, net worth of \$380,000, and tangible property valued at \$340,000. What combination of taxes applies?

A. Business tax on gross receipts, franchise tax based on the greater of net worth or tangible property, and excise tax at 6.5% on net earnings — all three apply to limited partnerships

B. Business tax only, because limited partnerships are exempt from franchise and excise tax

C. Franchise and excise tax only, because limited partnerships are exempt from business tax

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

14. A contractor enters into a cost-plus-fixed-fee contract with a \$60,000 fixed fee for a \$740,000 estimated renovation. Owner-directed upgrades increase actual costs to \$860,000. What fee does the contractor receive?

- A. \$60,000, because a fixed fee remains constant regardless of whether actual costs increase or decrease
- B. \$69,730, adjusted proportionally because actual costs exceeded the original estimate
- C. \$86,000, recalculated at 10% of actual costs because the fee converts when costs exceed the estimate
- D. \$60,000 plus a separate change order fee of \$12,000 for the \$120,000 in additional work

15. A contractor is excavating a storm drain trench that reaches 5 feet 3 inches deep in soil classified as Type B. The superintendent says "it's barely over 5 feet and Type B holds well." Is the superintendent correct that no protection is needed?

- 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 prevent cave-ins
- C. 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
- D. No, because Type B soil requires protection at all depths regardless of the 5-foot threshold

16. A roofing subcontractor wants to bid on a \$45,000 re-roofing project for a commercial building. The subcontractor does not hold a Tennessee license. Can the subcontractor perform this work?

- A. Yes, because roofing 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
- D. No, but only because the project exceeds \$25,000 — roofing under \$25,000 is exempt

17. A contractor purchases \$50,000 in mechanical equipment for a commercial HVAC installation. The combined state and local sales tax rate is 9.25%. The building owner is a tax-exempt government agency. Can the contractor avoid sales tax?

- A. Yes, because materials for government projects are exempt from state sales tax
- B. Yes, if the contractor provides the supplier with the agency's exemption certificate
- C. No, because the contractor is the end user and must pay the combined 9.25% sales tax of \$4,625 regardless of the owner's status
- D. No, but the contractor can file a quarterly refund with the Tennessee Department of Revenue

18. A contractor's employee suffers a fatal trench collapse at 3:00 PM on Thursday. The site foreman calls the office at 3:25 PM. By what time must the employer report this fatality to OSHA?

- A. By 3:25 PM on Friday, which is within 24 hours of the employer learning
- B. By 3:00 PM on Friday, which is within 24 hours of the actual time of death
- C. By 3:25 PM the following Thursday, which is within 5 working days
- D. By 11:25 PM on Thursday, which is within 8 hours of the employer learning about the fatality

19. A contractor has a net worth of \$350,000 and working capital of \$310,000. The contractor applies for an unlimited license. Does the contractor qualify?

- A. Yes, because both net worth (\$350,000) and working capital (\$310,000) each independently exceed the \$300,000 threshold
- B. No, because the working capital of \$310,000 does not meet the \$350,000 minimum for unlimited
- 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

20. A contractor enters into a guaranteed maximum price (GMP) contract for \$1,900,000 on a hotel renovation. The contract includes a 50/50 shared savings clause. Actual costs total \$1,810,000. How are the savings distributed?

- A. The contractor receives the entire \$90,000 as an efficiency bonus
- B. The owner receives the full \$90,000 because the GMP exists solely for owner protection
- C. The owner receives \$45,000 and the contractor receives \$45,000, splitting the \$90,000 equally
- D. The savings are deposited in joint escrow until warranty obligations expire

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

- A. Yes, because all plumbing work on commercial buildings requires a separate license regardless of value
- B. No, because the \$24,500 scope falls below the \$25,000 threshold — the BC classification excludes plumbing exceeding \$25,000, and this scope does not exceed it
- 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

22. A contractor signs an unconditional lien waiver and delivers it to the general contractor before receiving the \$62,000 progress payment. One month later, the general contractor's company declares bankruptcy. The payment is never made. What is the legal effect?

A. The unconditional waiver is effective immediately upon signing — the contractor has released lien rights regardless of whether payment is ever received or the general contractor's financial condition

B. The unconditional waiver is void because the bankruptcy constitutes a material breach

C. The unconditional waiver converts to a conditional waiver upon the bankruptcy filing

D. The waiver is suspended until the bankruptcy court resolves the payment claim

23. A contractor operating as an S-corporation has net earnings of \$255,000, net worth of \$330,000, and tangible property valued at \$300,000. The CFO says S-corporations are exempt from franchise and excise tax. Is the CFO correct?

A. No, because S-corporations are subject to both franchise and excise tax in Tennessee despite their federal pass-through classification

B. Yes, because S-corporations receive the same state tax treatment as sole proprietorships

C. No, but only excise tax applies — S-corporations are exempt from franchise tax

D. Yes, because all pass-through entities are exempt from franchise and excise tax

24. A contractor enters into a \$680,000 lump-sum contract for a commercial tenant improvement. During demolition, the contractor discovers hidden water damage requiring \$38,000 in structural repair. The contract has no differing site conditions clause. Who bears the cost?

A. The owner bears the cost because hidden water damage is a pre-existing condition

B. The cost is split equally under the implied shared-risk doctrine

C. The contractor can file a mechanic's lien for the \$38,000 without prior notice

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

25. 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

26. A contractor operating as an LLC has gross receipts of \$1,700,000. The company paid \$1,200,000 to licensed subcontractors and \$140,000 to an unlicensed crew. What is deductible from gross receipts for business tax?

- A. \$1,200,000, because only payments to properly licensed subcontractors qualify for the deduction
- B. \$1,340,000, because all payments to subcontractors and crews are deductible
- C. \$0, because Tennessee does not permit deductions from gross receipts for business tax
- D. \$600,000, because the deduction is capped at 50% of total subcontractor payments

27. A contractor holds a Tennessee license with a monetary limit of \$1,950,000. The contractor carries \$750,000 in general liability insurance. Does the contractor meet the minimum GL requirement?

- A. Yes, because \$750,000 exceeds the \$500,000 minimum for the \$501,000–\$1,500,000 tier
- B. Yes, because GL requirements are based on individual project values, not the monetary limit
- C. No, because the \$1,950,000 limit exceeds \$1,501,000, placing the contractor in the highest tier that requires \$1,000,000 minimum GL
- D. No, because all contractors with limits above \$1,500,000 must carry GL equal to the monetary limit

28. A masonry subcontractor is bidding on a \$105,000 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 masonry projects
- B. Yes, because the LMC license is required when masonry work reaches \$100,000 or more, and \$105,000 exceeds that threshold
- C. No, because the general contractor's license covers all masonry subcontractor work
- D. Yes, because all masonry subcontractors must hold an LMC license regardless of value

29. An employer with 52 employees at a single Memphis location has a worker employed for 15 months who requests 12 weeks of FMLA leave for a personal serious health condition. Is the worker eligible?

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

30. 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 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 because pre-employment testing is prohibited

31. A project owner terminates a contractor for cause on a \$2,100,000 commercial project after documented breaches and three written cure notices. The contractor completed 50%. A replacement contractor charges \$1,250,000 to complete the remaining 50%. The original remaining balance was \$1,050,000. What does the original contractor receive?

- A. \$1,050,000, representing 50% of the contract price for all completed work
- B. The value of acceptably completed work with no offset for the replacement cost
- C. \$1,050,000 plus a 10% termination fee for early contract dissolution
- D. The value of acceptably completed work, reduced by the \$200,000 difference between the replacement cost (\$1,250,000) and the remaining contract balance (\$1,050,000)

32. A contractor with 58 employees is hiring workers. The HR director requires I-9 forms but has not enrolled in E-Verify. Is this compliant with Tennessee law?

- A. Yes, because E-Verify is a voluntary federal program with no state mandate
- B. Yes, because E-Verify is mandatory only for employers holding government contracts
- C. No, because E-Verify is required for all Tennessee employers regardless of employee count

D. No, because Tennessee requires E-Verify for employers with 50 or more employees — both I-9 and E-Verify are required

33. A contractor wants to determine whether a detached workshop construction project requires a Tennessee contractor license. The project includes: lumber \$12,200, roofing materials \$2,800, labor \$8,100, concrete slab \$1,200, and profit \$1,400. Does this require a license?

- A. Yes, because the total project cost is \$25,700, exceeding the \$25,000 licensing threshold
- B. No, because detached workshops are classified as accessory structures exempt from licensing
- C. No, because the labor cost of \$8,100 is under \$25,000 and the threshold applies only to labor
- D. Yes, because all projects involving roofing require a contractor license regardless of cost

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

- A. Both exams are fully waived because Louisiana has comprehensive reciprocity with Tennessee
- B. The trade exam may be waived through reciprocity with Louisiana, 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 in Tennessee

35. A contractor is building a commercial warehouse using the percentage-of-completion method. Contract price is \$1,800,000, costs to date are \$720,000, and total estimated costs are \$1,440,000. What revenue should be recognized?

- A. \$720,000, matching revenue to costs incurred without applying a completion ratio
- B. \$900,000, calculated as 50% of the contract price because the project appears half complete
- C. \$900,000, calculated as costs to date (\$720,000) divided by total estimated costs (\$1,440,000) multiplied by the contract price (\$1,800,000)
- D. \$1,800,000, because revenue is fully recognized once the project surpasses 40% completion

36. An employer with 10 employees in Tennessee terminates a worker who recently disclosed a hearing disability. Under which law can the worker file a discrimination complaint?

- A. The federal ADA, which applies to all employers with 10 or more employees in construction

- B. The Tennessee Human Rights Act, which applies to employers with 8 or more employees and covers disability — the federal ADA requires 15+ and does not apply here
- C. Title VII, which covers disability discrimination for employers with 10 or more employees
- D. No federal or state law covers disability claims for employers with only 10 employees

37. A contractor enters into a time-and-materials contract for emergency flood damage restoration. After two weeks, costs reach \$210,000. The owner demands a cost cap of \$275,000. 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 because T&M contracts cannot be modified

38. A contractor operating as a C-corporation has net worth of \$470,000 and tangible property valued at \$520,000. What is the franchise tax liability?

- A. \$1,175, 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. \$1,300, calculated at \$0.25 per \$100 of tangible property of \$520,000 because it is the greater value
- D. \$2,475, calculated at \$0.25 per \$100 of combined net worth and tangible property

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

40. A contractor enters into a \$750,000 lump-sum contract for a dental clinic. During construction, the owner verbally approves a \$16,500 upgrade to the operatory lighting. The

contractor completes the work immediately. 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 work
- 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

41. A contractor signs a conditional lien waiver in exchange for a \$44,000 progress payment. The owner issues a check. The contractor deposits it and the check clears three business days later. What is the status of the conditional waiver?

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

42. A material supplier delivers \$80,000 in custom millwork 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 for suppliers
- B. Send a demand letter by certified mail within 30 days of each invoice
- C. File a breach of contract lawsuit within one year to create an automatic lien
- D. 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

43. A contractor completes all work on a private commercial warehouse renovation on October 15. The owner withholds \$50,000 in retainage. The contractor files a mechanic's lien on January 10, which is 87 days after the last day of furnishing. Is the filing timely, and what is the enforcement deadline?

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

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

44. A contractor has total assets of \$1,180,000, total liabilities of \$760,000, current assets of \$450,000, and current liabilities of \$115,000. Does the contractor qualify for unlimited status?

- A. Yes, because the net worth of \$420,000 alone exceeds the sole \$300,000 requirement
- B. Yes, because both net worth (\$420,000) and working capital (\$335,000) each exceed \$300,000 — but the contractor should verify that the financial statement type matches the resulting monetary limit
- C. No, because the working capital of \$335,000 does not meet the \$400,000 minimum
- D. Yes, because both net worth (\$420,000) and working capital (\$335,000) each independently exceed the \$300,000 threshold required for unlimited status

45. A contractor operating as a sole proprietorship earns \$192,000 in net self-employment income. What is the approximate self-employment tax?

- A. Approximately \$29,376 at 15.3%, covering both the Social Security (12.4%) and Medicare (2.9%) portions
- B. Approximately \$14,688 at 7.65% because sole proprietors pay only the employee half of FICA
- C. Approximately \$5,568 at 2.9% for the Medicare portion only
- D. Approximately \$23,808 at 12.4% for the Social Security portion only

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

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

47. A contractor holds a Tennessee license with a monetary limit of \$560,000. 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 for all Tennessee contractors regardless of monetary limit

- B. Yes, because GL requirements are based on individual project values, not the monetary limit
- C. No, because the GL minimum is 25% of the monetary limit, requiring \$140,000
- D. No, because the \$560,000 monetary limit exceeds \$500,000, placing the contractor in the \$501,000–\$1,500,000 tier that requires \$500,000 minimum GL

48. 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 applies?

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

49. 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 a structure specifically designed as an illegal gambling operation. What element is missing?

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

50. A contractor enters into a \$580,000 lump-sum contract for a veterinary clinic. During excavation, the contractor discovers an abandoned well requiring \$28,000 for capping and removal. The contract has no differing site conditions clause. Who bears the cost?

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

Practice Exam 31: Answer Key and Explanations

1. D. Excise tax — $6.5\% \times \$430,000 = \$27,950$. Options A and B describe franchise tax.
2. D. Monetary limit — Net worth = \$330,000. Working capital = $\$350,000 - \$217,000 = \$133,000$. Limit = $10 \times \$133,000 = \$1,330,000$. Below \$1,400,000.
3. B. Cost-plus-percentage — $14\% \times \$22,000 = \$3,080$ lost fee. Percentage structure penalizes savings.
4. C. Workers' comp — Required for 1+ employees. Partners can individually exempt via Secretary of State.
5. B. Lien enforcement — One year from filing. September 22, 2027. Settlement delays don't toll.
6. D. Public property — Liens cannot be filed against public property. Remedy is payment bond.
7. C. Addenda — Modify previously issued documents. R-21 spray foam in addenda controls for warehouse.
8. D. Termination for convenience — Costs + earned profit. No anticipated profit. Total = $\$668,250 + \$74,250 = \$742,500$.
9. B. Age discrimination — ADEA requires 20+ (doesn't apply at 8). THRA at 8+ covers age.
10. B. Electrical licensing — BC excludes electrical exceeding \$25,000. \$31,000 exceeds threshold.
11. C. Sole proprietorship taxes — Exempt from franchise and excise. Only business tax applies.
12. C. Financial statements — Limits exceeding \$3,000,000 require audited statement.
13. A. Limited partnership taxes — All three apply: business tax, franchise tax, excise tax.
14. A. Cost-plus-fixed-fee — \$60,000 fee constant regardless of actual costs.
15. C. Excavation — OSHA requires protection at 5+ feet unless stable rock. No "barely over" exception.
16. B. Roofing licensing — Licensed since January 1, 2014, regardless of value.

17. C. Sales tax — Contractor is end user. $\$50,000 \times 9.25\% = \$4,625$. Owner's exemption doesn't transfer.
18. D. Fatality reporting — 8 hours from employer learning. $3:25 \text{ PM} + 8 = 11:25 \text{ PM}$ Thursday.
19. A. Unlimited license — Both net worth (\$350,000) and working capital (\$310,000) each exceed \$300,000. Qualifies.
20. C. GMP shared savings — \$90,000 split 50/50: \$45,000 each.
21. B. Plumbing licensing — BC excludes plumbing exceeding \$25,000. \$24,500 below threshold.
22. A. Unconditional waiver — Effective immediately upon signing regardless of payment or bankruptcy.
23. A. S-corporation taxes — Subject to both franchise and excise despite pass-through status.
24. D. Lump-sum risk — Without differing site conditions clause, contractor bears unforeseen costs.
25. C. BC-A/r — \$125,000 limit, no trade exam (community college course), joint ventures prohibited, subcontractors permitted.
26. A. Business tax deduction — Only licensed subcontractor payments (\$1,200,000) deductible.
27. C. GL tiers — \$1,950,000 exceeds \$1,501,000. Highest tier requires \$1,000,000. \$750,000 insufficient.
28. B. LMC threshold — Required at \$100,000+. \$105,000 exceeds threshold.
29. B. FMLA — 50+ employees, 15 months tenure, personal health condition qualifies. All met.
30. C. Drug-Free Workplace — All four components required for 5% premium credit.
31. D. Termination for cause — Value of acceptable work offset by \$200,000 additional completion cost.
32. D. E-Verify — Required for 50+ employees. Both I-9 and E-Verify required at 58.
33. A. Licensing threshold — Total = $\$12,200 + \$2,800 + \$8,100 + \$1,200 + \$1,400 = \$25,700$. Exceeds \$25,000.

34. B. Louisiana reciprocity — Trade exam waived. Business and Law exam always required.
35. C. Percentage of completion — Revenue = $(\$720,000 \div \$1,440,000) \times \$1,800,000 = 0.50 \times \$1,800,000 = \$900,000$.
36. B. Disability discrimination — ADA requires 15+ (doesn't apply at 10). THRA at 8+ covers disability.
37. B. T&M contracts — No inherent cost ceiling. Any cap requires written modification by both parties.
38. C. Franchise tax — \$0.25 per \$100 of greater value (\$520,000 tangible). $\$520,000 \div 100 \times \$0.25 = \$1,300$.
39. A. HVAC licensing — BC excludes HVAC exceeding \$25,000. \$24,800 below threshold.
40. D. Change order — Should be written and signed before work. Lack of documentation weakens position.
41. B. Conditional waiver — Effective when payment actually received. Check cleared. Condition satisfied.
42. D. Remote claimant — Notice of Nonpayment within 90 days, file lien within 90 days.
43. C. Lien timing — 87 days after last furnishing, within 90 days. Timely. Enforcement within one year.
44. D. Unlimited license — Net worth = \$420,000, working capital = \$335,000. Both exceed \$300,000. Qualifies.
45. A. Self-employment tax — $15.3\% \times \$192,000 = \$29,376$.
46. A. Discrimination thresholds — Title VII at 15+, ADA at 15+: both apply. ADEA at 20+: does not apply at 19.
47. D. GL tiers — \$560,000 exceeds \$500,000. \$501,000–\$1,500,000 tier requires \$500,000. \$100,000 insufficient.
48. A. Ohio reciprocity — Trade exam waived. Business and Law exam always required.
49. A. Legal purpose — Constructing a facility for illegal gambling lacks legal purpose.
50. B. Lump-sum risk — Without differing site conditions clause, contractor bears unforeseen costs.